APPROPRIATION COMMITTEE

TOWN OF LEXINGTON

REPORT TO THE

MARCH 2014

ANNUAL TOWN MEETING

Released March 24, 2014

APPROPRIATION COMMITTEE MEMBERS

Glenn P. Parker, Chair • John Bartenstein, Vice Chair/Secretary

Robert N. Addelson (ex-officio; non-voting) • Robert Cohen • Mollie Garberg

Alan Levine • Susan McLeish • Eric Michelson • Richard Neumeier • Jonina Schonfeld

Contents

Summary of Warrant Article Recommendations

Abbreviations

EF	Enterprise Fund	CPA	Community Preservation Act
GF	General Fund	DSSF	Debt Service Stabilization Fund
RE	Retained Earnings	IP	A motion to Indefinitely Postpone is expected
RF	Revolving Fund	TDM	Traffic Demand Management

Article	Title	Funds Requested	Funding Source	Committee Recommendation
4	**Appropriate FY2015 Operating Budget**	**$167,178,567**	***See Below***	**Approve (9-0)**
5	**Appropriate FY2015 Enterprise Funds Budgets**	$8,481,605 $9,052,588 $1,840,934 **$19,375,127**	**Water EF** **Wastewater EF** **Recreation EF**	**Approve (9-0)**
6	**Appropriate for Senior Service Program**	**$20,000**	**GF**	**Approve (9-0)**
7	**Establish and Continue Departmental Revolving Funds**	***See below***	**RF**	**Approve (9-0)**
8	**Appropriate the FY2015 Community Preservation Committee Operating Budget and CPA Projects**	$3,663,190 $419,276 $189,000 **$4,271,466**	**CPA** **GF** **Rec EF**	***Approve (9-0)*** ***except*** ***8(a) IP*** ***8(g) (8-1)***
9	**Appropriate for Recreation Capital Projects**	**$51,000**	**Rec. EF**	**Approve (9-0)**
10	**Appropriate for Municipal Capital Projects and Equipment**	**$7,749,029**	***See below***	**Approve (9-0)**
11	**Appropriate for Water System Improvements**	$293,000 $607,000 **$900,000**	**Water EF (Debt)** **Water RE**	**Approve (9-0)**
12	**Appropriate for Wastewater System Improvements**	$900,000 $900,000 **$1,800,000**	**Wastewater EF (Debt)** **Wastewater RE**	**Approve (9-0)**

13	**Appropriate for School Capital Projects and Equipment**	**$1,432,094**	***See below***	**Approve (9-0)**
14	**Appropriate for Public Facilities Capital Projects and Equipment**	**$1,541,352**	***See below***	**Approve (9-0)**
15	**Appropriate to Post Employment Insurance Liability Fund**	**$1,119,000**	**GF**	**Approve (9-0)**
16	**Rescind Prior Borrowing Authorization**	**None**	**N/A**	**Approve (9-0)**
17	**Establish and Appropriate To and From Specified Stabilization Funds**	$3,186,309 $2,974,417 $40,000 $70,644 **$6,271,370**	**Free Cash** **Tax Levy** **TM revenue** **TDM revenue**	**Approve (9-0)**
18	**Appropriate to Stabilization Fund**	**None**	**N/A**	**IP**
19	**Appropriate from Debt Service Stabilization Fund**	**$124,057**	**DSSF**	**Approve (9-0)**
20	**Appropriate for Prior Years' Unpaid Bills**	**$30,940**	**GF**	**Approve (9-0)**
21	**Amend FY2014 Operating and Enterprise Budgets**	**Unknown**	**Unknown**	**Pending**
22	**Appropriate for Authorized Capital Improvements**	$495,000 $246,194 **$741,000**	**Tax Levy** **Bond Premium**	**Approve (9-0)**
23	**Amendments to the District Agreement of the Minuteman Regional Vocational School District**	**None**	**N/A**	**Approve (9-0)**
25	**Establish Qualifications for Tax Deferrals**	**None**	**N/A**	**IP**

Preface

This Preface describes the structure and stylistic conventions used in this report. It is followed by an Introduction discussing changes in the Town's financial status since the most recent Annual Town Meeting in March 2013, along with issues pertinent to the Town's general financial situation. The main body of this report contains article-by-article discussions and recommendations on those articles that, in our opinion, have substantial financial relevance. The report references several appendices at the end of this document that provide a deeper explanation of particular financial issues.

The discussion for each article presents the prevailing view of the Committee, as well as any other considerations or cautions that we feel Town Meeting should be informed of. If one or more Committee members are strongly opposed to the majority position, we summarize the opposing perspective. Each article discussion concludes with the most recent vote of the Committee prior to publication. The vote is summarized by the number of members in favor, followed by the number of members opposed, and lastly (when applicable) the number of members abstaining, e.g. "(6-2-1)" indicates six members in favor, two opposed, and one abstaining. It is not always possible to collect a complete vote for every article from nine voting members. In such instances, the total number of votes and abstentions published will be less than nine. For convenience, Committee votes are also summarized on the preceding pages.

This report does not replicate information readily available to Town Meeting members elsewhere. Key documents that inform our analysis and provide a more thorough picture of the Town finances are:

- The Town Manager's *Fiscal Year 2015 Recommended Budget & Financing Plan*, dated March 3, 2014, commonly known as the "Brown Book", fully describes the annual budget of the Town. The Brown Book also summarizes budget laws and bylaws (Appendix B) and includes a glossary of financial terms (Appendix D).

  `http://www.lexingtonma.gov/finance/budget/FY15_Brown_Book_for_Web.pdf`

- School Committee *Fiscal Year 2015 Recommended Budget* (the "Gray Book"), dated February 11, 2014, which details the budget plans for the Lexington Public School System.

  `http://lps.lexingtonma.org/Page/3787`

- *TMMA Warrant Information Report* (March 2014), published by the Town Meeting Members Association.

  `http://www.lexingtontmma.org/uploads/Main/2014WarrantInfoReport.pdf`

- Capital Expenditures Committee (CEC) *Report to the 2014 Special Town Meeting*, which provides a detailed report on appropriation requests for capital projects.

- Community Preservation Committee (CPC) *Report to the 2014 Annual Town Meeting.*

Acknowledgements

The content of this report, except where otherwise noted, was researched, written and edited by members of the Committee with support from Town staff. Our Committee has the pleasure and the privilege of working with Town Manager, Carl Valente; Assistant Town Manager for Finance, Rob Addelson; our Budget Officer, Theo Kalivas; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Superintendent of Schools, Dr. Paul Ash; the Assistant Superintendent for Finance and Operations, Mary Ellen Dunn; and the Board of Selectmen. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise to help us prepare this report.

Introduction

The Appropriation Committee is required to create a report with a review of the budget as adopted by the Board of Selectmen, including an assessment of the budget plan and a projection for future years' revenues and expenses. This report includes the Committee's advice and recommendations regarding all appropriations of Town funds that are anticipated in the Town Warrant, and other municipal matters that may come before Town Meeting. This report is published and distributed to the members of Town Meeting as a printed document and as an electronic document via the Town website. The Committee also makes presentations during Town Meeting, including recommendations on appropriations and other matters for which the Committee's formal position was pending at the time of publication.

March 2014 Special Town Meeting

The Committee has already published its report to the March 2014 Special Town Meeting, which recommended approval of capital appropriations for the renovation of Cary Memorial Hall and the future Community Center at 39 Marrett Road.

Developments Since Adoption of the FY2014 Budget

The March 2013 Special Town Meeting (STM) approved the purchase of 39 Marrett Road, and the Town completed the purchase in November 2013.

At the June 2013 STM, a Tax Increment Finance Agreement for uniQure, Inc. was approved. The agreement granted an 18.6% reduction on the incremental property tax over ten years, a reduction of approximately $286,000 vis-a-vis $1,536,000 of anticipated new tax revenue over the life of the agreement.

At the November 2013 STM, $7.7 million was approved for the design and construction of modular classrooms at Lexington High School. Article 22 asks to supplement this amount by $495,000 in response to construction bids that were higher than anticipated.

Also at the November 2013 STM, the Town added $1.8 million to the Capital Projects/Debt Service Reserve/Building Renewal Stabilization Fund (CP/DSR/BR). Another $6.2 million for this fund is requested under Article 17.

The Ad hoc Community Center Advisory Committee (AhCCAC) was formed in April 2013 to advise the Board of Selectmen regarding plans for the renovation of the buildings at 39 Marrett Road, space and staffing needs, new programming, and relocating existing services into the new Community Center. The November 2013 STM approved a request based on the AhCCAC's recommendation for $3.17 million in design and construction work. Article 3 of the March 2014 STM asks for an increase in this appropriation to about $6.2 million. If approved, construction is expected to start in June 2014 with the opening day in March 2015.

Construction on the new Estabrook Elementary School was completed on-time and under budget, and the new school is now open.

The surprising growth in student enrollment at the Lexington Public School System noted in past reports by this Committee has continued. The Ad Hoc Enrollment Working Group was formed to analyze the trend and to improve the school's enrollment forecasting model. Their preliminary report indicates that enrollment began a gradual upward shift in the 2005 school year, and accelerated dramatically in 2010. If this trend continues, the Town will have to take action to alleviate overcrowding in one or more schools.

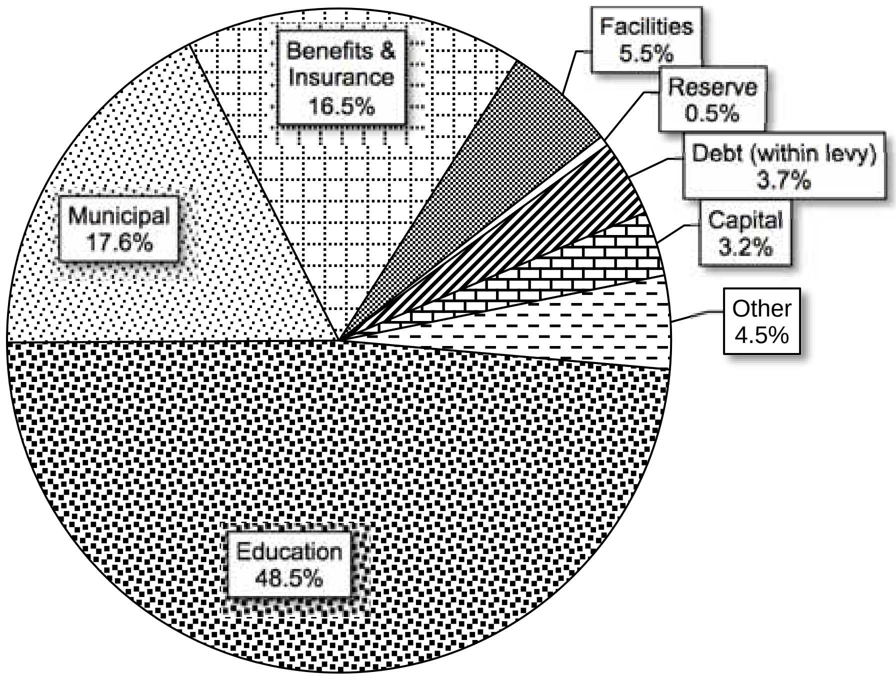
The Committee has made the following Reserve Fund transfers during FY2014:

Date	Amount	Description
Dec. 5, 2013	$42,000	Additional costs for overtime, training, and equipment need by the Lexington Police Department in preparation for and during Patriot's Day.

The FY2014 snow and ice budget is in deficit and may require a Reserve Fund transfer once the final costs are known.

The FY2015 Budget

The Town Manager has proposed a balanced, level service budget that does not require an operating override. The table and chart below comprise the General Fund budget totaling $181,109,226. This does not include enterprise funds, revolving funds, CPA, grants, or exempt debt.



Program	Description	Amount
1000	**Education**	**$87,868,313**
3000	*Public Works*	$8,721,486
4000	*Public Safety*	$12,087,491
5000	*Culture & Recreation*	$2,180,569
6000	*Human Services*	$1,220,132
7000	*Community Devel.*	$1,832,823
8000	*General Government*	$5,914,810
	Municipal	**$31,957,311**

Program	Description	Amount
2100	*Benefits & Insurance*	$29,824,628
2400	*Facilities*	$9,897,675
2300	*Reserve Fund*	$900,000
2200	*Debt (within-levy)*	$6,730,641
2000	**Shared Expenses**	**$47,352,943**
	Capital	**$5,708,117**
	Other	**$8,222,542**

Property tax revenue is projected to grow by 4.1% which is below the average of 5.0% for the last four years. The average residential tax bill is projected to increase by 2.76%, and the budget includes the use of $1,869,000 from the CP/DSR/BR fund to mitigate the increase in the property tax due to debt service.

The Town's participation in the Group Insurance Commission continues to control annual increases in health insurance costs. The Town also recently learned that the health insurance premiums for this year would be increasing by much less than the original budgeted amount, allowing $1 million to be reallocated for capital spending.

As always, the Town crafts its budget in the absence of a firm commitment on the amount of State funding to expect, primarily in the form of aid under Chapter 70 (schools) and Chapter 90 (roads). In the last few years, State aid has been difficult to predict, with small consecutive reductions in FY2011 and FY2012, followed by a 12% increase in FY2013. This year State aid is expected to increase 8.4%, due almost entirely to growth in Chapter 70 aid.

A rapid increase in enrollment within the Lexington Public School system has put a serious burden on the School department. The Superintendent has requested funding for new staff to meet the legal requirements and programmatic needs of the population. For the coming fiscal year, this funding did not require a deviation from the Town's revenue allocation model. The Committee expects that the need to provide suitable classroom space for a growing school population and the associated staff will have a significant impact on future budgets.

Finally, this budget makes significant investments in capital improvements to the Town's buildings and infrastructure. The Committee agrees that this is a worthwhile use of funds while the Town is not under pressure to meet its basic budget needs.

As usual, the Committee may choose to update its recommendation on the floor of Town Meeting if new information is presented.

Warrant Article Analysis and Recommendations

Article 4: Appropriate FY2015 Operating Budget	Funds Requested	Funding Source	Committee Recommendation
	$167,178,567	***See Motion***	**Approve (9-0)**

The operating budget consists of Education (1000), Shared Expenses (2000), and Municipal (3000-8000) programs. Major components of the operating budget are discussed below.

Each major section of this request is discussed separately below.

Program 1100: Lexington Public Schools	Funds Requested	Funding Source
	$86,623,929	*See Motion*

The School Committee has voted to recommend a FY2015 appropriation of $86,623,929. The request represents an increase of $5,223,422 or 6.42% above the FY2014 appropriation. The amount requested is $642,332 below the amount available for the public schools under the current revenue allocation model that sets a baseline for school and municipal budgets at the start of the budget development process.

The FY2015 request would implement a budget that allows for contractual increases, the addition of 25.46 FTE (a 2.46% increase) in staffing to address legal requirements, enrollment increases, and very limited programmatic improvements. The $86,623,929 budget request does not include $346,314 carried under Shared Expenses for the purpose of benefits associated with the new positions being requested.

The primary drivers of the increases relative to FY2014 are:

- Salary increases based on current negotiated contracts
- Staffing increases due to enrollment increases and grant offsets
- Staffing increases in special education legally required to address changes in the number of students with special needs and in the nature of their needs
- Staffing increases driven by state-mandated changes
- Programmatic improvements.

Lexington is implementing new state-mandated educator evaluation requirements, revising curriculum per the newly adopted Common Core, and preparing for the imminent phase-out of MCAS in favor of a new national system known as PARCC (Partnership for Assessment of Readiness for College and Careers). In addition, positions are being added for programmatic improvements in areas such as guidance and technology and emergency preparedness.

Funding Sources

The General Fund supports the majority of the school budget. However, other sources also support school operations, including funds from state, federal and other sources that are not subject to appropriation. These additional funds can vary year to year, making it difficult to compare appropriation requests across years. For example, the FY2015 budget assumes that the Lexington Public schools will receive a one-time payment for the final balance of funds in the Avalon Bay School Enrollment Mitigation Stabilization Fund, and also a recurring payment for circuit breaker reimbursements. The latter will be finalized later in the spring or early summer via State legislation.

Some of these sources require appropriation by Town Meeting while others go directly to the School Department without need for appropriation. An overview of these sources follows:

- Federal Grants – For FY2015, the School Department projects that it will receive $1,888,395 in federal grants, the same amount that was received in FY2014. Federal grant funds are not subject to appropriation by Town Meeting and are not included in the $86,623,929 request.
- State grants – For FY2015, the School Department projects that the total amount that will be received in state grant revenue will be the same as in FY2014, namely $1,750,411. The grants include those for METCO, School Health, Academic Support, Full-Day Kindergarten, and Special Education Program Improvement. These funds are not subject to appropriation by Town Meeting.
- Circuit breaker reimbursements come from the Commonwealth when the cost of special education services for an individual student, whether in or out of district, exceeds four times the statewide foundation budget. In the past, reimbursement rates have varied between 35% and 75% of the tuition cost. The School Department projects the FY2015 reimbursement rate will be the same as the actual FY2014 reimbursement rate of 75%. Given this assumed rate and a base of 123 students, the total reimbursement for FY2015 is estimated to be $2,950,250. Actual reimbursement for FY2014 was $2,876,202. Circuit breaker reimbursement funds are not subject to appropriation by Town Meeting.
- The FY2015 school budget request assumes that the remaining balance of about $49,088 in the Avalon Bay Student Enrollment Mitigation Stabilization Fund will be appropriated for the School Department budget by Town Meeting.
- Fee Programs – Fees for participants were established for certain programs to support the individual program offerings by offsetting their costs. No fee changes for preschool or athletic programs are anticipated in FY2015.

Transportation

Special education transportation is required to provide access to educational services for some students. This budget request is $230,000 larger than in FY2014 due to an increase in the number of both in-district and out-of-district students receiving transportation services. This request includes an increase of $5,000 for transportation of homeless students mandated by the McKinney-Vento Act. Since FY2012, Lexington has seen a rise in the number of homeless students attending the Lexington Public Schools. In FY2015, it is estimated that 21 homeless children will require transportation.

For regular education transportation, ridership has increased, partly in response to subsidies implemented in FY2013. An increase of $128,254 is requested to cover FY2015 contract rates, to provide an additional bus, and to maintain subsidy and financial assistance programs.

More detailed information about the FY2015 School Committee Recommended Budget is available at: `http://lps.lexingtonma.org/Page/3787`

Program 1200: Regional Schools	**Funds Requested**	**Funding Source**
	$1,244,384	**GF**

The Minuteman Regional High School (MRHS) Committee has accepted an FY2015 budget of $19,645,065, a $1,097,967 or 5.91% budget increase over FY2014. This increase consists of an 11% increase in the costs of operations and a 59% decrease in capital costs. This is a level services budget, designed to accommodate a greater number of students, while continuing to reevaluate staffing needs. In-district enrollment continues to increase at the school.

Due to a lack of consensus among the District member towns, the school remains unable to initiate a MSBA approved renovations program to address unmet needs in Career and Technical Education facilities and equipment. This project process is in its sixth year and the delays have prompted the New England Association of Schools and Colleges to keep Minuteman on “Warning Status” for having failed to make progress under the Facilities Standard. This delay has raised major concerns about the potential loss of a substantial MSBA subsidy to help fund necessary renovations.

A serious roadblock for the school renovation is the number of out-of-district students (almost 45% of the school population) and the fact that their tuition (set by the State) covers operating expenses only. Current negotiations with the State are expected to enable the school to incorporate a new facilities fee for out-of-district students to fund a portion of the capital renovation program.

The member communities, including Lexington, are being asked to accept a new Regional Agreement this spring to address some of these concerns (see Article 23). Additionally, the results of a study analyzing enrollment trends and potential program changes will soon be available to guide District School Committee decisions.

This budget assumes level out-of-district enrollment, a 10% growth of in-district students, and anticipates that the incoming freshman class will increase by 35 students over the graduating class of 2014. Two administration positions, 1.5 FTE teachers, and 1 support maintenance position have been added. Salaries, which make up 60% of the operating budget, increased $1,003,638 (9.62%). Staffing levels will increase 9.5 FTE’s over the FY2014 budget.

The school is currently renegotiating a contract with the Minuteman Faculty Association. The school continues its commitment to small-scale infrastructure renewal with an annual capital budget of $550,000, which includes a $100,000 contribution to their stabilization fund.

As of October 1, 2013, 725 full-time students were enrolled. Roughly 56% of these students are from in-district towns and 44% are from out-of-district towns. The District School Committee has maintained its earlier position not to accept school choice students at MRHS. Total full-time enrollment increased by 59 students (8.9%). In-district enrollment increased by 42 students (11.4%) and out-of-district enrollment increased by 17 students (5.7%). Special education students comprise 47% of the school’s FTE enrollment.

The FY2014 out-of-district tuition, set by the Massachusetts Department of Elementary and Secondary Education (DESE), decreased to $18,309 per student from $19,406 in FY2013 and is expected to decrease again in FY2015. Despite lobbying efforts by MRHS, the state-imposed tuition is determined by a formula which continues to underfund the district. In addition, out-of-district towns will continue to be assessed for non-resident SPED tuition at $5,000 per student (in-district SPED costs are $4,500 per student), and all transportation costs will continue to be assumed by the sending community.

Starting this year, all revenue and expenses related to Post Graduate (PG) programs, including tuitions charged to in-district students and those assessed to towns, will be managed through a revolving account. This is intended to financially partition these programs from the rest of the school’s operating budget. PG enrollments have dropped after temporarily rising due to the down economy, partially due to the additional matching tuition charged to in-district students.

Member towns are assessed for the upcoming year based on their student enrollment in the current year. These assessments are used to fund the portion of this budget that is not funded by the combination of: (1) all other projected revenues, and (2) member towns’ State Required Minimum (SRM) per-student payments. This year’s assessments are based on an MRHS budget funded with a projected $2,166,667 of Chapter 70 funds and $760,241 in transportation aid. These estimates are based on the Governor’s H-1 budget, which indicates increased funding in Chapter 70 aid and level funding in transportation aid compared with FY2014. These amounts are preliminary until final approval of the State’s FY2015 budget.

Application of Out-of-District Tuition Revenue

Total Minuteman	**FY2008**	**FY2009**	**FY2010**	**FY2011**	**FY2012**	**FY2013**	**FY2014**
Current Year Tuition	375,392	382,181	888,363	1,541,984	1,480,984	900,000	600,000
Prior Year Tuition	3,112,724	3,473,927	3,457,303	2,888,748	2,793,400	3,700,000	5,100,000

Four years ago our report included a criticism of the use of prior-year and current-year tuition money. Until FY2002 the school budgeted very conservatively, and only applied the tuition collected from the prior year towards its budget. Starting in FY2003, $280,000 of current-year (anticipated) tuition was applied towards the budget. The table above illustrates that the use of current-year tuition was increasing at a rate where eventually all tuition revenue would be applied in the same fiscal year that it was received. That trend reversed starting in the FY2013 budget. We are pleased to report that the FY2015 revenue plan is based on $5,965,997 from the prior year's tuition receipts, and only $382,000 in current-year tuition.

Lexington's Projected Minuteman Assessment – based on unapproved House-1 budget

	FTE BASIS ENROLLMENT *		AVG. PER-PUPIL CHARGE		ASSESSMENT	
PROGRAM	**FY14**	**FY15**	**FY14**	**FY15**	**FY14**	**FY15**
Grades 9-12:						
Regular Day Students	53	47	$5,661	$6,151	$300,029	$289,096
Special Education Assessment	27	26	$4,500	$4,500	$121,500	$117,000
State Minimums for Lexington	58	49	$14,490	$14,449	$840,422	$707,981
Totals, grades 9-12 (incl. SPED)	53	47	$23,810	$23,704	$1,261,951	$1,114,077
Post Graduate Programs:	7	5	$3,000	$3,000	$21,000	$15,000
TOTAL OPERATING	60	**52**	$21,383	**$21,713**	$1,282,951	**$1,129,077**
Capital Assessment			$3,610	$2,453	$191,314	$115,308
TOTAL ASSESSMENT			$24,571	**$23,930**	$1,474,265	**$1,244,385**
% increase (decrease) over prior year			9.94%	(-2.61%)	4.71%	(-15.59%)

* prior year's enrollment as of October 1

A breakdown of the full assessment is shown above. Lexington's FY2014 enrollment (as of October 1, 2013) was 47 full-time regular students in grades 9-12. This "basis enrollment" is used to calculate the per-student assessment for Regular Day Students and the Capital Assessment in FY2015. This is a drop in enrollment of 6 Regular Day students and 2 Post Graduate students.

Due to the Town's lower enrollment, and a 32% decrease in the per-student capital assessment, the preliminary FY2015 assessment for Lexington is $229,880 (15.59%) less than the FY2014 actual assessment.

Program 2000: Shared Expenses	**Funds Requested**	**Funding Source**
	$47,352,943	***See Motion***

The Shared Expenses section of the budget is comprised of four different pieces. Each section is listed below and with their respective budget totals:

	FY2014	**FY2015**	**Change**
Employee Benefits	$29,688,138	$29,824,628	$136,490
Debt Service	$5,534,823	$6,730,641	$1,195,818
Reserve Fund	$900,000	$900,000	–
Public Facilities	$9,760,460	$9,897,675	$137,215
Total Shared Expenses	$45,883,421	**$47,352,943**	$1,469,522

The shared expenses line item has increased over last fiscal year by $1,469,523 or 3.2%.

Employee Benefits: The $136,490 increase in this line item is largely for the benefits costs (health, dental, Medicare and workers' compensation) of new benefits-eligible municipal and school employees, along with a baseline increase in benefits costs for all employees.

Debt Service: The increase of $1,195,818 in this line item is the result of two factors: within-levy principal increased by $904,971, and within-levy interest increased by $259,551.

Reserve Fund: The Reserve Fund is intended for extraordinary and unforeseen expenses. This fund which is under the jurisdiction of the Appropriations Committee has been level funded for the coming fiscal year.

Public Facilities: The Department of Public Facilities is responsible for the coordination and care of all Town buildings, including all of those under the control of the Town Manager, Library Trustees and School Committee. The $9,897,675 budget (which does not include the Rental Revolving Fund & PEG Access monies) is increasing by $137,215 this fiscal year. Most of this increase is driven by employee salary expenses (contractually obligated step increases and cost of living adjustments).

Programs 3000-8000: Municipal	**Funds Requested**	**Funding Source**
	$31,957,311	***See Motion***

The municipal budget comprises all line items from 3000 to 8999. Adoption of the recommended municipal budget would result in an overall increase from FY2014 to FY2015 of $1,376,338 or 4.5%. The request includes a limited number of program improvement requests; they are listed below with brief comments. For further details, please see the Brown Book.

Line 3120: Funding for a full time engineering inspector ($65,020 plus $15,967 in benefits that are carried in the Shared Expenses line items). This is in response to increased capital appropriations in FY2015 and prior fiscal years that have increased the need for inspectional services.

Line 3210: Funds to replace street signs that are not adequately reflective ($24,462).

Line 3310: Top dressing for athletic fields ($8,000).

Line 3320: Funds to hire a contractor to plant 70 street trees and to perform watering, fertilization, and other street tree maintenance functions ($45,000). The work will supplement the efforts of the DPW Public Grounds Division and will continue in future years if it proves to be effective.

Line 3420: Wages for a seasonal heavy equipment operator for the compost operation ($24,200). The funding would come from the Compost Revolving Fund.

Line 4100: Miscellaneous items for the Police Department ($16,565). An additional patrol officer is *not* included in the recommended budget.

Line 4200: Miscellaneous items for the Fire Department ($14,082). An additional lieutenant and additional ambulance staff are *not* included in the recommended budget.

Line 6210: Lexpress GPS tracking ($4,920).

Line 7120: Printer ($12,000).

Line 7200: Additional hours for a part-time planner ($21,391) and a consultant to support the Scenic Byways Initiative ($5,000).

Line 7310: Economic development promotional initiatives ($31,250).

Line 8110: Board and committee agenda software ($10,000).

Line 8210: Consulting services in regard to liability issues and insurance coverage ($24,000).

Line 8330: Public Celebrations Committee events support ($5,000).

Line 8510: Additional hours for part-time clerks in the Town Clerk’s office ($4,714).

Line 8610: Add the position of Chief Information Officer ($110,000 plus $15,456 for benefits under Shared Expenses), website redesign ($24,000), and a subscription to an online source of business information ($4,000).

The Committee recommends approval of this request (9-0).

Article 5: Appropriate FY2015 Enterprise Funds Budgets	Funds Requested	Funding Source	Committee Recommendation
	$8,481,605 $9,052,588 $1,840,934 **$19,375,127**	**Water EF Wastewater EF Recreation EF**	**Approve (9-0)**

This Article governs the appropriation of funds for the operation of the Town's three enterprise funds – the Water Enterprise Fund, the Wastewater Enterprise Fund, and the Recreation Enterprise Fund – with the exception of indirect costs which are appropriated under Article 4. For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please refer to Appendix B. The following discussion will focus on the anticipated expenses and revenues of the enterprise funds for FY2015 and issues they raise.

A breakdown of the funding request for this article is shown in the following tables.

Water Enterprise Fund	**FY2013 Actual**	**FY2014 Appropriated**	**FY2015 Requested**	**% Change**
Compensation	$592,228	$667,183	$674,611	1.11%
Expenses	$336,857	$395,200	$389,400	-1.47%
Debt Service	$1,249,336	$1,260,655	$1,379,622	9.44%
MWRA Assessment	$5,145,927	$5,555,065	$6,037,972	8.69%
Total Requested in Article 5	**$7,324,348**	**$7,878,103**	**$8,481,605**	**7.66%**
Indirect Expenses	$665,848	$818,689	$789,275	-3.59%
Total Water Enterprise Budget	**$7,990,196**	**$8,696,792**	**$9,270,880**	**6.60%**

Wastewater Enterprise Fund	**FY2013 Actual**	**FY2014 Appropriated**	**FY2015 Requested**	**% Change**
Compensation	$203,310	$292,711	$302,360	3.30%
Expenses	$334,019	$337,100	$345,650	2.54%
Debt Service	$927,193	$1,131,673	$1,220,843	7.88%
MWRA Assessment	$6,954,177	$7,014,300	$7,183,735	2.42%
Total Requested in Article 5	**$8,418,699**	**$8,775,784**	**$9,052,588**	**3.15%**
Indirect Expenses	$623,444	$456,603	$465,030	1.85%
Total Wastewater Enterprise Budget	**$9,042,143**	**$9,232,387**	**$9,517,618**	**3.09%**

Recreation Enterprise Fund	**FY2013 Actual**	**FY2014 Appropriated**	**FY2015 Requested**	**% Change**
Compensation	$620,845	$677,799	$704,615	3.96%
Expenses	$907,366	$1,008,841	$1,036,319	2.81%
Debt Service	$130,600	$100,000	$100,000	0.00%
Total Requested in Article 5	**$1,658,811**	**$1,785,840**	**$1,840,934**	**3.09%**
Indirect Expenses	$223,600	$228,600	$233,600	2.19%
Total Recreation Enterprise Fund	**$1,882,411**	**$2,014,440**	**$2,074,534**	**2.98%**

Note that this table differs from that contained in the warrant in three respects: (1) the MWRA assessments for water and wastewater reflect the MWRA's preliminary assessments issued in February rather than placeholders assumed in the warrant (see table below); (2) the debt service amounts have been increased to reflect those contained in the Brown Book; and (3) indirect expenses that will be charged to the enterprise funds, although appropriated separately under Article 4, have been included for completeness.

Water and Wastewater Funds

MWRA Assessments. The largest expense component of both the Water and Wastewater Enterprise Fund budgets is the assessment charged by the Massachusetts Water Resources Authority (MWRA). The Town will be assessed a share of the MWRA's total FY2015 water and sewer budgets based on the Town's proportionate water and sewer usage in the prior calendar year (CY2013), compared with other towns in the MWRA community.

MWRA Assessments

Fund	**FY2014 Final Assmt.**	**FY2015 Prelim. Assmt.**	**% Change**
Water	$5,555,065	$6,037,972	8.69%
Sewer	$7,014,300	$7,183,735	2.42%
Combined	$12,569,365	$13,221,707	5.19%

For this Article, the Warrant provides "placeholder" estimates based on a flat 10% increase to the prior year's assessments. The actual appropriation for this article will be based on the MWRA's preliminary assessments for FY2015, issued in February 2014 and shown in the table above. Final MWRA assessments are issued in June and are used to set water and sewer rates during the Town's annual rate-setting process in the fall. Appropriations for MWRA expenses may be adjusted to reflect the final assessments if a special town meeting is held in the fall.

It should be noted that this year's increase in Lexington's MWRA water assessment of 8.69% is considerably higher than the MWRA-wide average increase of just 3%. This means that the principal driver of Lexington's assessment increase is not growth in MWRA's underlying cost structure but an increase in Lexington's relative water usage compared with other communities in 2013. In fact, according to published MWRA data, Lexington's average daily flow rate increased 5.2% in Calendar Year 2013 compared with a system-wide increase of 1.8%.

Last year, an increase of similar magnitude was attributed to a temporary spike in the consumption of water by the Town of Bedford during the late summer and early fall of 2012 as part of a remedial pipe flushing program to remove contamination in certain parts of its water system.[1] Now that the problem in Bed-

[1] Lexington re-sells MWRA water to the Town of Bedford on a pass-through, wholesale basis. An amount roughly equivalent to the extra amount Bedford paid Lexington in CY2012 for its heavy water usage was set aside as a reserve to mitigate the resulting rate increase for FY2014.

[2] This Committee has previously urged that a policy be adopted defining the appropriate level of retained earnings to

ford has been resolved, one would have expected Lexington's MWRA water share to drop back to normal and thus fall, relative to other MWRA communities, in CY2013. The fact that Lexington's water usage has continued to increase indicates a trend toward higher water usage. This may be attributable in part to higher demand for water by certain commercial users. Given the continued progress of the "tear-down" phenomenon, growth in irrigation and other residential water usage may also be a factor. These phenomena should be explored when rates are set for FY2015 since if the higher MWRA assessment costs are spread over a larger assumed usage base, the rate impact on the average consumer will be less.

Direct Town Costs. In addition to the MWRA assessments, the expenses of the Water and Wastewater Fund budgets include direct costs incurred by the Town, primarily for: (1) the wages and salaries of the employees in the DPW's Water and Sewer Divisions, (2) the expenses of the water and sewer maintenance activities and equipment, and (3) debt service on prior borrowings for water and sewer enterprise capital improvements. All of these direct costs are increasing at moderate levels or decreasing (see Brown Book, pp. V-26, V-30) with the exception of water and sewer fund debt service costs which continue to grow at a somewhat higher rate (8-9%).

As this Committee has noted in past reports, the growth of debt service costs is a predictable consequence of a transition made seven or eight years ago from an earlier practice of funding ongoing capital improvements and repairs to the water and wastewater infrastructure with a combination of debt and cash capital to a practice of funding them primarily with debt. See the discussion of Articles 11 (Water Capital) and 12 (Sewer Capital) and accompanying tables. While debt financing helps to spread the costs of projects over their useful life, the immediate effect of the change was a temporary lowering of current-year capital costs. As interest payments and principal repayments come due on the higher levels of debt incurred, the annual capital costs of the enterprise funds that must be captured in the water and sewer rates have gradually returned toward their original levels. In addition, the Water and Sewer Enterprise Funds' debt service burden has been increased by their assumption of responsibility for approximately 25% of the debt service costs for the construction of the new DPW facility (17% and 7% respectively, based on their usage of that building).

This year, as noted in the discussion of Articles 11 and 12, it is proposed to finance $873,500 of a total $1,121,500 in water system improvements and other capital acquisitions, and $940,500 of a total $1,840,500 in sewer improvements, from retained earnings. This is reasonable because retained earnings are presently above their target levels, and, as noted below, the use of surplus retained earnings for capital projects mitigates future debt service costs and promotes rate stability.

Indirect Town Costs. The Water and Sewer Enterprise Fund budgets also include indirect costs for services provided by other Town departments to support water and sewer operations, such as insurance costs (health and liability), retirement funding, engineering costs, and the cost of services provided by the Comptroller, the Management Information Systems (MIS) Department, and the Revenue Department. Since 2006, the Town has conducted periodic studies of the appropriate level of indirect costs and has adjusted the charges to the enterprise funds accordingly.

Rate-Setting, and Reserves

As discussed in Appendix B, the state statute governing enterprise funds, G.L. c. 44, § 53F½, requires that accumulated surpluses resulting from the operations of an enterprise fund, referred to as retained earnings, remain with the fund as a reserve, and that they be used only for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges. Deficits must be funded with existing reserves or, in the absence of such reserves, made up in the following year's rates.

During the early 2000s, difficulties in forecasting usage and other accounting issues resulted in rates being set at less than adequate levels in several rate years. This, in turn, reduced the retained earnings in the Water and Sewer Enterprise Funds to levels of concern. Since 2005, the Town's ability to measure and forecast water and sewer usage, and thereby to anticipate revenues and reserve levels, has improved significantly. This has enabled the Town to restore and stabilize the water and sewer enterprise fund reserve balances[2], and indeed more recently to draw some of the funds down for rate relief and capital investment as shown in the table below.

Retained Earnings: Appropriations and Year-End Balances

Annual Town Meeting	2009	2010	2011	2012	2013	2014
Water						
Starting Balance [1]	$2,537,249	$2,113,729	$1,622,052	$1,952,253	$2,066,566	$2,234,007
Approp. for Rate Relief [2]	$525,000	$450,000	$650,000	$350,000	$300,000	$250,000
Approp. for Capital [3]	$58,183	$25,000	$145,100	$25,000	$750,000	$873,500
Projected End Balance [4]	$1,954,066	$1,638,729	$826,952	$1,577,253	$1,016,566	$1,110,507
Sewer						
Starting Balance [1]	$2,763,179	$1,831,967	$1,622,052	$1,168,190	$1,319,000	$1,990,816
Approp. for Rate Relief [2]	$625,000	$400,000	$650,000	$150,000	$100,000	$50,000
Approp. for Capital [3]	$0	$45,000	$300,000	$0	$200,000	$940,500
Projected End Balance [4]	$2,138,179	$1,386,967	$925,612	$1,018,190	$1,019,000	$1,000,316

[1] *Certified retained earnings as of the end of the prior fiscal year (as of 6/30/2013 for this year's ATM).*

[2] *Proposed appropriations from retained earnings to subsidize the next fiscal year's operating budget (FY2015 at this ATM).*

[3] *Proposed appropriations for capital projects for the next fiscal year (FY2015 at this ATM); this year's proposals are found in Articles 10 (Municipal Capital), Article 11 (Water System Improvements) and Article 12 (Wastewater System Improvements).*

[4] *Note that appropriations from retained earnings must be deducted as a liability from the projected retained earnings to be certified as of the end of the current fiscal year even though the funds will not be applied until the following fiscal year. The projection of anticipated assumes break-even operational results during the current fiscal year. A higher (lower) starting balance available for appropriation the following year indicates that the current year's operating results were higher (lower) than were projected at rate-setting, resulting in an operating surplus (deficit).*

As can be seen from the table above, from FY2009 through FY2011 the Town appropriated significant amounts of retained earnings at each year's Annual Town Meeting to subsidize the following fiscal year's water and sewer budget. We believe that large appropriations of retained earnings for rate relief in the next year can produce volatility in the rates, i.e., to larger than necessary increases and decreases from one year to the next. On the other hand, the use of excess retained earnings for cash funding of capital investments reduces long-term debt service, which in turn has a much lower impact on annual rate changes.

This year's budget proposes a continued modest reduction in the combined annual retained earnings subsidy – a reduction in the water subsidy from $300,000 to $250,000 and a reduction in the sewer subsidy from $100,000 to $50,000. These reductions make progress toward the goal of eliminating the use of retained earnings for short-term rate relief. By keeping debt service costs down, the application of retained earnings to capital costs largely offsets the impact on rates from a lower operating subsidy in FY2015, and also provides long-term rate relief.

As indicated by the difference between the projected ending balance of retained earnings and the next year's starting balance, the rates that were set in the fall of 2012 for FY2013 generated significant operating surpluses of over $1 million in the water fund and nearly $1 million in the sewer fund, increasing the

[2] This Committee has previously urged that a policy be adopted defining the appropriate level of retained earnings to be maintained for emergency purposes for both funds, and setting forth guidelines for the use of such funds either to mitigate future rate increases or to finance capital projects. Although a definitive policy still has not been adopted, the Town Manager has recommended maintaining reserves of approximately $1,000,000 in each fund.

amount of retained earnings available for appropriation this year. To some extent these surpluses were the result of unanticipated bond premiums that were allocated to the enterprise funds, but they may also be attributable to the upward trend in water usage mentioned above. Rate-setting for FY2015 should take these trends into account so that rates are not set higher than necessary.

Recreation

This level-service budget represents an increase of $55,094 (3%) from last year. This increase includes an increase for wages and salaries for five full-time staff and approximately 175 seasonal staff. Expenses are increasing by 2.81% and debt service cost will remain the same ($100,000).

The operational costs of all programs offered by the Recreation Department are designed to be revenue-neutral with charges to users matching the program's operating costs. Sources of revenue include user fees for fields and registration fees for programs (estimated to total $1,252,634 in FY2015) and the revenue from golf course fees, which are estimated to remain stable at $816,850.

The recreation fund contributes to the debt service on some recreation capital projects (in particular, the Lincoln Field restoration project). Most recreation capital costs, however, are subsidized by the General Fund through a combination of within-levy borrowing, Community Preservation Act (CPA) funding, and debt exclusion funding.

Retained earnings for the Recreation Enterprise Fund as of the end of FY2013 (6/30/2013) were $1,166,698. Draws from the Recreation EF retained earnings are proposed for capital purposes under article 8(h) ($189,000 for Lincoln Park Field improvements).

In view of the recent amendment of the Community Preservation Act permitting CPA funds to be spent for the improvement of existing recreational fields and other facilities, the impetus to maintain substantial reserves in the Recreation EF as a financing source for recreation capital projects is now reduced.

The Committee recommends approval of this request (9-0).

Article 6: Appropriate for Senior Service Program	Funds Requested	Funding Source	Committee Recommendation
	$20,000	**GF**	**Approve (9-0)**

This article proposes an appropriation for the Town's Senior Service Program of $20,000. This amount, together with an anticipated carryover balance from prior years of approximately $11,540, is expected to be sufficient to meet the needs of the program in FY2015.

The Senior Service Program

Since 2006, the Town has operated its own Senior Service Program, which allows low-to-moderate income seniors (age 60 and over) to perform volunteer work for the Town in exchange for a reduction in their property tax. The Town adopted this program, in substitution for a similar program previously operated under G.L. c. 59, § 5K, to allow it more flexibility in setting the age criteria for participation, the wage rate, and the total amount of credit allowed.

The Senior Service Program is funded by direct appropriation from the tax levy. For more information on the Senior Service Program and other property tax relief options available to seniors, including exemptions and opportunities for deferral, please refer to Appendix D.

Benefits and Criteria for Participation

The maximum amount of the tax reduction that may be earned, under guidelines established by the Selectmen and amended in July 2013, is $1,045/year (110 hours at $9.50 per hour) for an individual and $1,330/year (140 hours at $9.50 per hour) for a couple. Participants may receive property tax reductions under this program in addition to any other exemption for which they qualify, such as the $1,000 Clause 41C exemption, and may also defer the balance of their taxes under Clause 41A if they are eligible to do so. Current income eligibility criteria are set forth in Appendix D.

Funding Requirements and Requested Appropriation

The program operates as a continuing balance account, and unexpended funds carry over from year to year. When first established in FY2007, the program was funded at $25,000, an amount slightly higher than the average annual amount that had been expended from an overlay account under the pre-existing state program during the 2004-2006 fiscal years. In anticipation of higher usage, the annual appropriation was subsequently increased over time from $36,000 in FY2007 to $45,000 in FY2010.

This level of funding, however, proved to be more than was required to allow the Town to admit all eligible applicants who wished to participate in the program. Despite efforts to expand participation, including increases in the income threshold, the numbers have been stable at around 28 to 30 persons from FY2007 through FY2014, and annual expenditures have ranged from $23,642 to $28,046. Accordingly, appropriation requests since FY2010 have been scaled back to reflect realistic funding requirements and the amount of carryover funds available. The appropriation requested this year is $20,000. Going forward, however, the Selectmen may wish again to consider steps to enhance interest in this worthy program.

The Committee recommends approval of this request (9-0).

Article 7: Establish and Continue Departmental Revolving Funds	Funds Requested	Funding Source	Committee Recommendation
	See below	**RF**	**Approve (9-0)**

Fund #	Program or Purpose	Representative or Board Authorized to Spend	Departmental Receipts	FY2014 Approved Authorization	FY2015 Requested Authorization
1100	School Bus Transportation	School Committee	School Bus Fees	$830,000	**$830,000**
2400	Building Rental Revolving Fund	Public Facilities Director	Building Rental Fees	$405,000	**$410,000**
3110	Regional Cache – Hartwell Avenue	Public Works Director	User Fees from Participating Municipalities	$20,000	**$20,000**
3320	Lexington Tree Fund	Board of Selectmen	Gifts and Fees	$25,000	**$25,000**
3330	DPW Burial Containers	Public Works Director	Sale of Grave Boxes and Burial Vaults	$40,000	**$40,000**
3420	DPW Compost Operations	Public Works Director	Sale of Compost and Loam, Yard Waste Permits	$465,000	**$490,000**
3420	Minuteman Household Hazardous Waste Program	Public Works Director	Fees Paid by Consortium Towns	$175,000	**$180,000**
6120	Council on Aging Programs	Human Services Director	Program Fees and Gifts	$100,000	**$100,000**
7140	Health Programs	Health Director	Medicare Reimbursements	$10,000	**$14,000**

Fund #	Program or Purpose	Representative or Board Authorized to Spend	Departmental Receipts	FY2014 Approved Authorization	FY2015 Requested Authorization
7320	Tourism/Liberty Ride	Town Manager and Tourism Comm.	Liberty Ride Receipts	$290,000	**$275,000**
8140	PEG Access	Board of Selectmen and Town Manager	License Fees from Cable TV Providers	$490,000	**$671,000**

Reauthorization of all existing municipal revolving funds is requested for FY2015 as shown in the table above. Information regarding the nature of revolving funds can be found in Appendix C of this report. A summary of the revolving fund balances can be found on page C-2 in the Brown Book. The spending limit proposed for each of the funds is based on a reasonable estimate of the fees and charges likely to be received, as well as of the expenditures likely to be required.

Changes in Authorization Levels from FY2014

During FY2014, with the approval of this Committee, the spending ceiling for the PEG Access Fund was increased by $40,000 to $490,000 to fund a project connecting 201 Bedford Street to the Town Office Building and the Police Station with fiber optic communication cables using an existing Verizon underground conduit. The requested authorization for FY2015 is $221,000 greater than the revised FY2014 authorization. Approximately $201,000 is requested to finance improvements to Cary Memorial Hall that will improve the broadcast of events by LexMedia. The balance reflects a contractual increase in the agreement with LexMedia as well as an increase in the costs of Town staff time allocated to support the activities of LexMedia.

The decrease in the requested authorization for Tourism/Liberty Ride reflects a $12,000 decrease in printing costs for marketing materials as well a reduction in expenses due to the discontinuance of bundled ticket pricing for the Liberty Ride combined with tours provided by the Lexington Historical Society.

The requested authorization for DPW Compost Operations includes a $24,200 increase to fund a seasonal position for a part time heavy equipment operator.

The $4,000 increase to the Health Programs Revolving Fund is to account for the significant increase in public health clinics offered as part of the Department's comprehensive flu vaccination program.

The Committee recommends approval of this request (9-0).

Article 8: Appropriate the FY2015 Community Preservation Committee Operating Budget and CPA Projects	Funds Requested	Funding Source	Committee Recommendation
	$3,663,190 $419,276 $189,000 **$4,271,466**	**CPA** **GF** **Rec EF**	***Approve (9-0)*** ***except*** ***8(a) IP*** ***8(g) (8-1)***

The Community Preservation Act (CPA) is a state statute that allows municipalities to raise a surcharge on property taxes for local use for purposes related to historic preservation, open space (including recreation), and affordable housing. The State provides matching funds (the amount depending on monies available and demand from adopting communities) from fees imposed on real estate transactions, including mortgage refinancing.

While the CPA provides broad guidance on the appropriate use of funds, it allows for a considerable measure of local control by 1) establishing a local Community Preservation Committee (CPC) to review and make recommendations on candidate CPA projects to Town Meeting and 2) authorizing Town Meeting to approve CPC-recommended projects. Town Meeting may not *increase* a CPC-recommended appropriation, nor may it alter the stated purpose of an appropriation, but it may amend to *decrease* an appropriation.

Communities adopting the CPA have each implemented the statute in a way that reflects local opportunities, priorities and needs. One of Lexington's opportunities lies in the inventory of municipal and school buildings that qualify as historic buildings and which are therefore eligible for CPA funding. These projects can be funded through a combination of Lexington taxpayers' CPA surcharges and State matching funds. Of the total $44,714,020 of CPA funds appropriated by Lexington for projects and administrative costs, Town Meeting has appropriated $19,167,763 for historic projects, many of which have led to the renovation or rehabilitation of Town buildings; $3,717,892 for recreation projects; $9,643,517 for acquisition and preservation of land for open space; $6,985,848 for community housing, and $880,000 in administrative expenses. Categorization of an additional $4,319,000, representing appropriations related to the Busa Property, is pending.

The State Match

The state match awarded for FY2007, the first year following Lexington's adoption of the CPA, was 100% of Lexington's 3% surcharge, as it had been since the CPA was enacted in 2001. Beginning in FY2008, real estate transaction revenue declined, along with the economy, and the matching levels for communities that adopted the CPA went down. State matches averaged 28% in FY2011, 2012 and 2103.

However, the match revenues Lexington received in November 2013 significantly increased due to state legislation passed in July 2012 which added $25 million to the CPA Trust Fund in time for the November 2013 distribution. This raised Lexington's FY2014 (October 2013) state match of its FY2013 surcharge receipts to 54.09%, amounting to a match of $1,932,347.

Note: In any fiscal year, the state match Lexington receives is based on the surcharge receipts from the prior fiscal year. For example, in fall 2014 (FY2015) the state match for the Town will be based on receipts for the surcharge collected through June 2014 (end of FY2014). The FY2015 State budget will not be finalized until after the ATM, and a state boost for the State CPA Trust Fund is unresolved.

Funds Available for Appropriation

There is $8,276,673 in CPA funds available for appropriation at this Town Meeting: with $3,428,363 in carry-forward reserves and $4,848,310 in FY2015 anticipated revenues. The latter includes anticipated FY2015 surcharge collections of $3,907,000 and an anticipated State match of $927,310 (estimated at 25% of the collected the Town's FY2014 surcharges) and $14,000 in interest income.

The Motion

To prevent some of the past confusion caused by the wording of this article's motion, we present a brief description of its structure. The motion under Article 8 will be in two parts; the first section will allocate the anticipated revenue to the different reserves, and the second part will appropriate funds for the individual projects. As required by the State Statute, 10% of annual anticipated revenue of $4,848,310 will be allocated to each of the three specified reserves: the Open Space Reserve, the Historic Resources Reserve and the Community Housing Reserve. The remaining 70% of anticipated revenue will be allocated to the Unbudgeted Reserve. Appropriations will then be considered separately under each subsection of this Article, and each project will specify funding from one or more of the four reserves.

This Year's Requests

The requests recommended by the CPC are listed below. The funding sources are indicated in parentheses following each amount.

8(a) 39 Marrett Road Community Center Renovations – $100,000 (CPA) is requested for the construction of a sidewalk connecting Marrett Road to the new community center. The Town Engineer produced a design for the sidewalk that established the current cost estimate, and the Committee initially recommended approval of this item. However, the Scottish Rite recently raised concerns about the proposed placement of the sidewalk. The Committee expects this request will be indefinitely postponed, and a revised request will be made at a future Town Meeting.

8(b) Visitor Center – Design Phase –$59,332 (CPA), and $161,276 (GF), totaling $220,608, is requested for the design phase of a redesign and expansion of the Visitors Center. Total construction costs are estimated at $2,300,000, which would be part of a future request.

The Tourism Committee believes an expanded Visitors Center will encourage visitors to spend their time and money in Lexington. Originally built in 1965 in anticipation of the nation's bicentennial, the Visitors Center has served as an information hub to Lexingtonians as well as millions of guests from around the world. With the growing demands for service, a renewed focus on the economic development opportunities that tourism provides, and the expanding use of the Minuteman Commuter Bikeway, the proposed changes to Visitors Center are worthwhile.

On page XI-16 of the Town Manager's FY2015 Recommended Budget, it is noted that:

> The Board of Selectmen is still in discussion on whether this scope is warranted. If funding is approved, the Selectmen will not authorize design to begin before they receive and review program recommendations for the facility.

In the interest of advancing a project that we consider important to the Town, the Committee is prepared to rely on the Board of Selectmen to ensure that the scope is clearly specified before design work proceeds.

8(c) Hastings Park Gazebo Renovations – $120,000 (CPA) is requested to address many safety issues on the gazebo in Hastings Park, which is in poor condition and not handicapped accessible. This project will preserve a heavily used community asset, and allow it to be accessed by the disabled.

This Article originally requested a total of $3,120,000 to bury utility lines that traverse Hastings Park in addition to the gazebo renovations. The portion of the project that dealt with the utility lines was not approved by the CPC.

8(d) HC Inventory Forms for Listed Buildings –$35,000 (CPA) is requested to hire a professional historical preservationist consultant. This consultant will be hired to compile data on up to 150 high-priority historically-significant houses that are currently listed on the Lexington Historical Commission's Master List. This will give the Historical Commission the updated information they need to decide which properties belong on the list, and to advise property owners as to historical significance of their properties.

8(e) Battle Green Streetscape Improvement –$63,000 (CPA) and $27,000 (GF), totaling $90,000, is requested for phase 3 of this project. The previously approved design work occurred in phase 1 (FY2012, $100,000) and phase 2 (FY2013, $203,845). Phase 3 is for the architectural services to develop plans and specs to the 25% design level. Funding for the construction of this project will be requested in FY2016. The Battle Green in the most significant public asset in Lexington. The care and maintenance of this historic setting must be carefully thought out and consistent with the historical treasures that surround it.

8(f) Vynebrooke Village Renovations –$300,551 (CPA) is requested by the Lexington Housing Authority to cover one third of the cost of a project to preserve the deteriorating building envelopes, reduce energy costs, etc., at Vynebrooke Village. The other two thirds of the cost would be funded by a grant from the Massachusetts Department of Housing and Community Development.

8(g) LexHAB Set-Aside Funds for Development of Community Housing at the Busa Property – $750,000 (CPA) is requested by LexHAB and would be combined with $535,000 of previously appropriated set-aside funds, to build affordable housing units on a designated section of the Busa Farm property on Lowell Street. The current plan, per a Board of Selectmen vote on March 10, 2014, is for two buildings, each with three dwelling units: a two-bedroom unit on the first floor, a two-bedroom unit on the second floor, and an accessible one-bedroom unit in the ground floor.

By a vote of 8-1, the majority of the Committee supports LexHAB's request and recommends approval of this subsection of the Article. The minority opposes the development of new housing on open space acquired using CPA funds, and, for that reason, does not support this subsection of the request.

8(h) Lincoln Park Field Improvements – $200,000 (CPA), $231,000 (GF), and $189,000 in retained earnings from the Recreation EF, totaling $620,000, is requested to replace the synthetic turf and in-fill on Lincoln Park Field #2 (phase 2 of 3).

8(i) Park and Playground Improvements – $65,000 (CPA) is requested to renovate playground equipment at the Garfield Playground.

8(j) Park Improvements – Athletic Fields – $100,000 (CPA) is requested to re-grade the multipurpose field at Clarke Middle School and install signage, trash barrels and benches.

8(k) Park Improvements – Hard Court Resurfacing – $85,000 (CPA) is requested to repair tennis court surfaces and nets at Gallagher and Clarke Middle School.

8(l) Parker Meadow Accessible Trail – Design and Engineering – $34,500 (CPA) is requested to hire a consultant to develop design documents for a passive recreational trail system in Lexington open space. This trail system will be the first in Lexington to provide passive, barrier-free access to members of the public with physical, vision and auditory limitations. The consultant will analyze the existing parcel, including existing trails, and design trails that are compliant with the Americans with Disabilities Act (ADA). Where feasible, existing trails will be incorporated, but there may be areas where trails need to be realigned or shifted in order to comply with ADA slope and grade requirements or to limit impacts in wetland resource areas. The project is a joint effort of the Conservation Commission, the Recreation Committee, and a private citizens committee.

Article 8(m) – $1,600,807 (CPA) is requested for debt service on the CPA projects as outlined in the following table. Two different types of debt are used: bond anticipation notes (BANs), and multi-year municipal bonds. BANs allow interest-only short-term borrowing for a term of up to one year. They are issued for individual projects prior to bundling the debt from several projects to create a single multi-year bond.

Project / Approval	**Total Appropriation**	**Debt Financing**	**Debt Service**	**BAN Interest**
Wright Farm Purchase	$3,072,000	$2,090,000	$434,634	
ATM 2012			*First payment of a 10-year bond*	
Community Center Acquisition	$10,950,000	$7,652,500	$1,089,774	
STM 3/2013			*First payment of a 10-year bond*	
Community Center Renovation*	$6,320,000	$451,000		$9,300
STM 11/2013, Amended STM 3/2014			*Convert to bond Feb 2016*	
Cary Memorial Building Upgrades*	$8,677,400	$8,241,350		$67,100
STM 3/2014			*Convert to bond Feb 2016*	
Totals			**$1,524,408**	**$76,400**

* *pending approval*

The practice of the Town, based on recommendations from the Appropriation Committee and Capital Expenditures Committee, is to limit the size and duration of debt funded by the CPA to the practical minimum, usually below the maximum that would be allowed by statute. This reduces the potential for long-term financial commitments that would linger should the residents vote to rescind the CPA surcharge in the future. That said, this practice should not be allowed to consign too much of the CPA annual revenue for debt service, which would stifle the ability of the CPC to fund new projects directly with cash.

Article 8(n) – $150,000 (CPA) – The Community Preservation Act permits up to 5% of annual CPA funds to be spent on the operating and administrative costs of the Community Preservation Committee. The Committee is allowed to use this money to pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPA projects. Five percent of the anticipated FY2015 revenue from the surcharge and the State supplemental match is $241,716. However, as in past years, the CPC is requesting an appropriation of $150,000. This money will be used to fund the Committee's part-time Administrative Assistant, membership dues to the non-profit Community Preservation Coalition, administrative expenses, legal and miscellaneous expenses, and land planning, appraisals and legal fees for open space proposed to be acquired using CPA funds.

The Committee expects action on 8(a) will be indefinitely postponed.

The Committee recommends approval of items 8(b,c,d,e,f,h,i,j,k,l,m,n) (9-0).

The Committee recommends approval of item 8(g) (8-1).

Article 9: Appropriate for Recreation Capital Projects	Funds Requested	Funding Source	Committee Recommendation
	$51,000	**Rec. EF**	**Approve (9-0)**

The Recreation Committee has requested $26,000 to purchase a Toro Procore aerator, and $25,000 to purchase a Toro Workman utility vehicle.

The new Toro Procore 648 will replace the Toro aerator that was purchased in 2000 as well as the Ryan Greensaire 24 purchased in 2003. The new aerator will be used to aerate the soil in the golf course during the season. The greens are aerated three times per year and the other areas (tees, collars, aprons) are aerated in the spring and fall.

The new Toro Workman will replace a 1990 Cushman Utility vehicle. The Toro Workman will be used on a daily basis for all projects on the golf course and maintenance.

The Committee recommends approval of this request (9-0).

Article 10: Appropriate for Municipal Capital Projects and Equipment	Funds Requested	Funding Source	Committee Recommendation
	$7,749,029	***See below***	**Approve (9-0)**

Project Description	**Funds Requested**	**Funding Source**
10(a) Center Streetscape Improvements and Easements	$600,000	GF Debt
10(b) DPW Equipment replacement	$428,440 $216,500 $40,500 $14,560 **$700,000**	GF Debt Water RE Waste Water RE Prior Approp.
10(c) Street Improvements and Easements	$2,254,924 $961,105 **$3,216,029**	Tax Levy Chapter 90

Project Description	Funds Requested	Funding Source
10(d) Storm Drainage Improvements and NPDES Compliance	$270,000 $70,000 **$340,000**	GF Debt Free Cash
10(e) Hydrant Replacement Program	$50,000 $50,000 **$100,000**	Free Cash Water RE
10(f) Comprehensive Watershed Storm Water Management Study and Implementation Measures	**$390,000**	GF Debt
10(g) Massachusetts Avenue Intersection Improvements and Easements	**$500,000**	GF Debt
10(h) Sidewalk Improvements and Easements	**$400,000**	GF Debt
10(i) Dam Repair	**$150,000**	GF Debt
10(j) Town Wide Culvert Replacement	**$390,000**	GF Debt
10(k) Town Wide Signalization Improvements	**$125,000**	GF Debt
10(l) Traffic Island Renovation	**$83,000**	Free Cash
10(m) Ambulance Replacement X1-5	$185,000 $65,000 **$250,000**	GF Debt Free Cash
10(n) Heart Monitors	**$105,000**	Tax Levy
10(o) Replace Town Wide Phone Systems – Phase III	**$260,000**	GF Debt
10(p) Network Redundancy and Improvement Plan – Phase II	$38,913 $13,856 $87,231 **$140,000**	GF Debt Free Cash Tax Levy

This Article requests funds for municipal capital projects and equipment. Municipal capital projects and equipment requests, in addition to school capital requests, are brought forward each year through the Town's five-year capital improvement planning process. Multi-year planning enables the Town to properly stage and sequence capital projects to smooth financing plans and to make funding needs more predictable. In any year, financing for any project may come from one or more revenue sources.

For a complete description of the capital planning process and each municipal capital project or equipment request, please see both the Capital Expenditures Committee Report to the 2014 Special and Annual Town Meetings, and Section XI: Capital Investment of the FY2015 Town Manager's Recommended Budget and Financing Plan.

This Committee notes that the Capital Expenditures Committee has not recommended approval of item 10(l), which requests $83,000 ($8,000 for planning plus $75,000 for implementation) to grade and landscape the traffic islands at the intersection of Hartwell Avenue and Bedford Street. The large traffic island covers 17,075 sq. ft., and smaller traffic islands total 2,750 sq. ft. The State owns the right-of-ways for the traffic islands, and performs limited landscape work on them (cutting the grass twice each summer). The Town currently does additional grass-cutting and cleans up litter in the area on a regular basis.

Businesses along Hartwell Avenue have encouraged the Town to help create an attractive gateway for the area, and they have committed to providing signage near the intersection, and which must be located outside of the State's right-of-way. The Town has worked with landscape architects to develop a low maintenance and sustainable design. The Department of Public Works would be responsible for maintaining the area, and may use volunteers for some of that work.

The Committee recommends approval of this request (9-0).

Article 11: Appropriate for Water System Improvements	Funds Requested	Funding Source	Committee Recommendation
	$293,000 $607,000 **$900,000**	**Water EF (Debt)** **Water RE**	**Approve (9-0)**

This Article addresses proposed capital expenditures to be made during FY2015 as part of a continuing program to upgrade and keep current the assets of the Water Enterprise Fund. For general background on the enterprise funds, and the relationship between the budget process and the water rate setting process, please see Appendix B and the discussion under Article 5.

A total of $900,000 is requested this year to replace unlined or inadequate water mains and deteriorated service connections and to eliminate dead ends in water mains. The details of the projects, including the locations where work is expected to be done, can be found in the Brown Book (p. XI-10). The costs of this year's system improvements will be funded by a combination of borrowing ($293,000) and retained earnings of the Water Enterprise Fund ($607,000). The debt service costs for the portion borrowed will be borne by the operating budget for the Water Enterprise Fund in FY2014 and in future years until the debt is retired (see Brown Book, p. XI-10, Table II), and will be included each year as a component of the water rates.

Capital appropriations for similar purposes have been made in most years over the last decade (except for FY2006 and FY2012, when engineering studies were not ready). The goal is to keep the system current so the Town can assure dependable high water quality, pressure, and volume for domestic needs, commercial needs, and fire protection as well as minimization of water main breaks.

Prior to FY2006, capital expenditures for water distribution and related improvements were funded by a combination of enterprise fund cash capital, which was raised in the rates, and borrowing. Subsequently, there was a transition to funding these ongoing improvements exclusively with debt. While the transition to debt financing in the enterprise funds mitigated the need for rate increases early on, that change, together with the fund's allocated contribution to the debt service for the new DPW facility, steadily increased the annual debt service costs of the Water Enterprise Fund, both in dollar and percentage terms, as illustrated below.

Growth in Water Fund Debt Service Costs

Fiscal Year	Water Debt Service	Total Budget	Debt Service Ratio
2006	$213,150	$6,237,235	3.4%
2007	$358,301	$6,514,502	5.5%
2008	$425,565	$6,469,388	6.6%
2009	$757,247	$7,190,800	10.5%
2010	$1,074,551	$7,241,304	14.8%
2011	$1,137,075	$7,619,919	14.9%
2012	$1,258,968	$8,039,413	15.7%
2013	$1,299,091	$8,124,846	16.0%
2014	$1,260,655	$8,707,219	14.5%
2015	$1,379,622	$9,270,880	14.9%

The Committee has previously noted that judicious use of some of the fund's accumulated retained earnings could help defray the impact of these growing capital costs and help to maintain long-term rate stability. We are pleased that this recommendation has been adopted for a second year, with a substantial cash contribution from retained earnings to the annual water distribution system improvements cost and, as noted below, to the acquisition of equipment replacements. Even if this level of cash contribution from retained earnings cannot be sustained in future years, it will nevertheless help to moderate debt service costs that would otherwise have to be included in rate requests going forward, and is a productive use of excess reserves.

Note that several additional capital appropriations will be funded by Water Enterprise Fund retained earnings under Article 10 (Municipal Capital). Under Article 10(b), $40,500 will be requested to cover 45% of the cost to replace a Ford F450 truck with a utility body, lift gate and plow (an additional 45% will be covered by the sewer enterprise fund and the balance of 10% will be covered by the general fund); and $176,000 in water fund retained earnings will be requested to cover 95% of the cost to replace a 10-wheel dump truck used by the water and sewer divisions (the balance of 5% will be covered by the general fund). Under Article 10(e), $50,000 from the water fund's retained earnings will be requested to fund half the cost of an ongoing hydrant replacement program shared 50-50 with the general fund. For a more complete discussion of the status and use of water and sewer enterprise fund retained earnings, see the discussion of the enterprise fund operating budgets under Article 5.

The Committee recommends approval of this request (9-0).

Article 12: Appropriate for Wastewater System Improvements	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	$900,000 $900,000 **$1,800,000**	**Wastewater EF (Debt)** **Wastewater RE**	**Approve (9-0)**

This Article addresses proposed capital expenditures to be made during FY2015 as part of a continuing program to upgrade and keep current the assets of the Wastewater Enterprise Fund. For general background on the enterprise funds, and the relationship between the budget process and the water rate-setting process, please see Appendix B and the discussion under Article 5.

A total of $1,800,000 is requested this year: $1,200,000 as part of a multi-year plan to rehabilitate sanitary sewer infrastructure, particularly in remote areas, including brook channels, where poor soil conditions lead to storm water infiltration; and $600,000 as part of an ongoing program to upgrade Lexington's ten sewer pumping stations. The details of the projects, including the locations where work is expected to be done, can be found in the Brown Book (p. XI-10-11). Capital appropriations for similar purposes have been made in most years (except for FY2006, when engineering studies were not ready, and FY2011, when only pump station upgrades were performed).

The costs of this year's wastewater system improvements will be funded by a combination of borrowing ($900,000) and retained earnings of the Water Enterprise Fund ($900,000). The resulting debt service costs for the portion borrowed will be borne by the operating budget for the Water Enterprise Fund in FY2014 and in future years until the debt is retired (see Brown Book, p. XI-10, Table III), and will be included each year as a component of the wastewater rates. Part of the funding may come from MWRA grants or loans.

Prior to FY2006, capital expenditures for sewer distribution improvements were funded primarily by enterprise-fund cash capital, which was raised in the rates. Subsequently, there was a transition to funding these ongoing improvements primarily with debt. While the transition to debt financing mitigated the need for rate increases early on, that change, together with the fund's allocated contribution to the debt service for the new DPW facility, has steadily increased the annual debt-service costs of the sewer enterprise fund, both in dollar and percentage terms, as illustrated below.

Growth in Wastewater Fund Debt Service

Fiscal Year	Sewer Debt Service	Total Budget	Debt Service Ratio
2006	$275,950	$7,084,802	3.9%
2007	$333,899	$7,440,920	4.5%
2008	$439,792	$7,355,479	6.0%
2009	$488,135	$7,643,649	6.4%
2010	$575,357	$8,083,478	7.1%
2011	$791,777	$8,315,556	9.5%
2012	$879,713	$8,934,624	9.8%
2013	$956,855	$9,282,077	10.3%
2014	$1,131,673	$9,257,354	12.2%
2015	$1,220,843	$9,517,618	12.8%

The Committee has previously noted that judicious use of some of the fund's accumulated retained earnings could help defray the impact of these growing capital costs and help to maintain long-term rate stability. A contribution of $300,000 from retained earnings was made in FY2012 and a contribution of $200,000 was made in FY2014. We are pleased that an even more substantial contribution of $900,000 from the wastewater fund's retained earnings is proposed this year, an increase made possible by recent growth of the retained earnings to a level well above the approximately $1,000,000 recommended to be held in reserve. Even if this level of cash contribution from retained earnings cannot be sustained in future years, it will nevertheless help to moderate debt service costs that would otherwise have to be included in rate requests going forward, and is a productive use of excess reserves.

Note that an additional appropriation of $40,500 in wastewater fund retained earnings will be requested under Article 10(b) (Municipal Capital) to cover 45% of the cost to replace an F450 truck with a utility body, lift gate and plow that have reached their end of life. For a more complete discussion of the status and use of water and sewer enterprise fund retained earnings, see the discussion of the enterprise fund operating budgets in Article 5.

The Committee recommends approval of this request (9-0).

Article 13: Appropriate for School Capital Projects and Equipment	Funds Requested	Funding Source	Committee Recommendation
	$1,432,094	***See below***	**Approve (9-0)**

Project Description	Funds Requested	Funding Source
13(a) School Classroom Furniture	$261,594	Free Cash
13(b) School Technology Capital Request	$1,110,000	GF Debt
13(c) Design Funds for School Traffic Safety Mitigation	$30,000	Free Cash
13(d) School AED Replacement	$30,500	Free Cash
Total	**$1,432,094**	

The total request for FY2015 is $1,432,094 is lower than the FY2014 request of $1,524,031.

An informative and detailed description of these requests, approved by the School Committee and submitted for Town Meeting approval, can be found in the Superintendent of School's Level Service and Recommended Budget for FY2015, School Capital Section. Additionally, the Capital Expenditures Committee report and the TMMA Warrant Information Report contain a comprehensive review of each item under Article 13.

The Committee recommends approval of this request (9-0).

Article 14: Appropriate for Public Facilities Capital Projects and Equipment	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	$1,541,352	***See below***	**Approve (9-0)**

Project Description	**Funds Requested**	**Funding Source**
14(a) School Building Envelope and Systems	$230,000	Free Cash
14(b) LHS Heating System Upgrade – Phases 2 and 3	$75,000	GF Debt
14(c) Municipal Building Envelope and Systems	$178,302	Tax Levy
14(d-1) School Building Flooring Program	$125,000	Free Cash
14(d-2) School Window Treatments Extraordinary Repair	$50,000	Free Cash
14(d-3) Interior Painting Program	$153,750	Free Cash
14(d-4) Middle School Nurses Stations	$45,000	Free Cash
14(d-5) Renovation and Update of Diamond Kitchen and Cafeteria	$25,000	Free Cash
14(d-6) Clarke School Gymnasium Dividing Curtain	$25,000	Free Cash
14(e) School Paving Program	$100,000	Free Cash
14(f) East Lexington Fire Station Physical Fitness Room	$75,000	Free Cash
14(g) Public Facilities Bid Documents	$75,000	Free Cash
14(h) Middle School Science, Performing Arts and General Educations Spaces	$40,000	Free Cash
14(i) Clarke School Elevator Upgrade	$275,000	$73,406 GF Debt $161,266 Tax Levy $40,328 Unused balance from prior appropriation
14(j) Clarke School Auditorium Audio Visual System	$69,300	Free Cash
14(k) Fire Station Headquarters Design	N/A	N/A
Total	**$1,541,352**	

The FY2014 request for Public Facilities Capital was $2,393,454. This year's request is lower by $852,102.

The FY2015 request of $40,000 for municipal parking lot improvements was deferred.

An informative and detailed description of these requests can be found in the Fiscal Year 2015 Town Manager's Preliminary Budget & Financing Plan of January 13, 2014. Additionally, the Capital Expenditures Report contains a comprehensive review of each item under Article 14.

The Committee recommends approval of this request (9-0).

Article 15: Appropriate to Post Employment Insurance Liability Fund	Funds Requested	Funding Source	Committee Recommendation
	$1,119,000	**GF**	**Approve (9-0)**

For a detailed discussion of funding for Other Post Employment Benefits (OPEB) and related issues, please see Appendix F.

On March 10, 2014, based on a recommendation from the OPEB Working Group, the Board of Selectmen endorsed a formal policy for making annual appropriations to the Post Employment Insurance Liability (PEIL) Fund:

> It is the policy of the Board of Selectmen to recommend to Town Meeting each year a budget contribution to the OPEB Trust Fund in an amount that ranges from 35 to 100 percent of the full Normal Cost, with the General and Enterprise Funds bearing their respective shares of those contributions. This approach will mitigate growth in the Unfunded Actuarial Accrued Liability, reducing the amount the Town will need to budget for health insurance by approximately one-third, as the assets of the OPEB Trust Fund will be used to underwrite the annual cost of retiree benefits.
>
> Further, it is recognized that there are competing claims for limited Town funds, which are considered as part of the annual budget process. Consequently, the annual recommendation for OPEB funding shall be made in the context of other capital and operating budget needs, such that recommended OPEB funding shall not have a material, detrimental impact on service delivery or the maintenance of Town capital assets and infrastructure.

This policy is welcomed by the Committee because it establishes a target range for an annual appropriation into the PEIL Fund that is directly related to the future liability incurred by the Town during each fiscal year. The policy also gives the Board of Selectmen the flexibility to adjust the size of their recommended appropriation based on competing needs within the Town's budget.

Based on the actuarial report, *Other Post-Retirement Employee Benefits Analysis For Fiscal Year July 1, 2012 – June 30, 2013*, dated February 21, 2014, the "Unfunded Actuarially Accrued Liability" for OPEB was approximately $87 million as of June 30, 2013, and the "Normal Cost" for FY2014 was approximately $1.7 million. These amounts were derived assuming a 7.75% rate of return on investments, the same rate currently used for the Town's pension trust fund.

The proposed appropriation is about 66% of the FY2014 Normal Cost, and well within the range recommended by the Selectmen's policy for the annual appropriation to the PEIL Fund. If approved, this appropriation would increase the balance of the PEIL Fund to approximately $5.32 million, raising the OPEB funding ratio to 6%.

This appropriation, in combination with approximately $5.9 million that will fund the Town's annual OPEB expenses, would greatly reduce the growth of the Town's Unfunded Actuarially Accrued Liability during FY2015.

The funding for the request is based on a one-time use of $1,000,000 from the Health Insurance Claims Fund to pay for annual health insurance costs. This freed up $1,000,000 from the General Fund for other uses, such as this request. The remaining $119,000 reflects the amount the Town received in Medicare Part D reimbursements from the federal government, which has been directed into the PEIL Fund for the past several years.

Due to the timing of the budget planning versus the fairly recent adoption of the OPEB policy, this request does not include any amounts from the enterprise funds. We expect that next year's request will apportion the contribution among the General Fund and the enterprise funds.

The Committee recommends approval of this request (9-0).

Article 16: Rescind Prior Borrowing Authorization	Funds Requested	Funding Source	Committee Recommendation
	None	**N/A**	**Approve (9-0)**

State law requires that Town Meeting vote to rescind authorized and unissued debt which is no longer required for its intended purpose. The committee has been advised that the following borrowing authority is no longer needed as the associated projects have been completed and no additional funds need to be borrowed.

Year	Article	Description	Amount
2010 ATM	13(b)	Rehabilitating Standpipes	$25,155.98
2011 ATM	14	Street Betterment – Frances Road	$33,000.00
2012 ATM	11(d)	Park Improvements – Athletic Fields	$7,173.34
2012 ATM	12(e)	DPW Equipment	$12,307.00

In addition, as per Massachusetts Department of Revenue Bulletin 2013-01B, the amount of the premium received from the February 5, 2014 bond sale attributable to the Bridge/Bowman renovations ($98,378.64) and the Estabrook school renovations ($147,815.82) is proposed to be rescinded under this article. The premium will be appropriated to pay project costs directly (see Article 22), reducing the overall amount to be borrowed and lowering the associated interest cost for each project.

The Committee recommends approval of this request (9-0).

Article 17: Establish and Appropriate To and From Specified Stabilization Funds	Funds Requested	Funding Source	Committee Recommendation
	$3,186,309 $2,974,417 $40,000 $70,644 **$6,271,370**	**Free Cash** **Tax Levy** **TM revenue** **TDM revenue**	**Approve (9-0)**

The State statute authorizing towns to create and maintain a stabilization fund (G.L. c. 40, § 5B) was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes.

Creating these funds, altering their specified purpose and appropriating into or out of them requires a two-thirds vote of Town Meeting. Lexington first specified stabilization funds were established at the 2007 Annual Town Meeting. A history and description of these funds can be found in Appendix E.

Each “specified stabilization fund” holds monies for one or more purposes that were specified when the fund was created. This Article is now routinely included on the Warrant to give Town Meeting the opportunity to create new specified stabilization funds, and to appropriate monies into, or out of, such funds.

Appropriations into specified stabilization funds are not normal expenditures, but rather transfers of funds into accounts for specified future uses. Once transferred into a fund, these monies can only be appropriated out of the fund in accordance with the purposes specified at the creation of the fund.

<u>Status of Funds and Appropriation Requests</u>

The current balance of each fund, the amount currently available for appropriation into each fund, and the amounts proposed to be deposited and withdrawn from each fund, are as follows:

Specified Stabilization Fund	Current Balance	Deposit	Withdraw	Warrant Article
Avalon Bay School Enrollment Mitigation S.F.	$49,096	–	$49,096	4
Center Improvement District S.F.	$86,269	–	–	–
School Bus Transportation S.F.	$18	–	–	–
Section 135 Zoning S.F.	$0	–	–	–
Special Education S.F.	$1,069,456	–	–	–
Traffic Mitigation S.F.	$96,562	$40,000	–	–
Transportation Demand Management / Public Transportation S.F.	$305,765	$70,644	$88,000	4
Transportation Management Overlay District S.F.	$10,744	–	–	–
Capital Projects/Debt Service Reserve/Building Renewal S.F.	$3,987,447	$6,160,726	$1,869,000	4

All deposits into funds are covered under this Article. Withdrawals from funds are covered under the indicated Article.

This Article proposes to appropriate $6,160,726 into the *Capital Projects/Debt Service Reserve/Building Renewal Stabilization Fund,* and also to appropriate $1,869,000 out of that same fund for the purpose of mitigating the Town's debt service. Of the total, $950,000 is to mitigate the debt service impacts of Bridge/Bowman and Estabrook debt exclusions and $919,000 is to mitigate the debt service impact of financing the LHS modular classrooms construction.

The monies to be transferred into the Traffic Mitigation S.F. and Transportation Demand Management/Public Transportation S.F. come from corresponding special revenue accounts.

<u>The Committee recommends approval of this request (9-0).</u>

Article 18: Appropriate to Stabilization Fund	Funds Requested	Funding Source	Committee Recommendation
	None	N/A	IP

As of publication the Selectmen had made no recommendation for appropriation to the Stabilization Fund. We support this decision as a part of the recommended budget and therefore we support the anticipated indefinite postponement of this article. A fund history can be found in the appendices of the Town Manager's *FY2015 Recommended Budget & Financing Plan*.

<u>The Committee expects action on this Article will be Indefinitely Postponed.</u>

Article 19: Appropriate from Debt Service Stabilization Fund	Funds Requested	Funding Source	Committee Recommendation
	$124,057	DSSF	Approve (9-0)

In August 2006, the Town received a lump-sum reimbursement of approximately $14 million from the Massachusetts School Building Authority (MSBA) to cover its remaining obligation for construction projects previously completed at Clarke and Diamond Middle Schools and Lexington High School. The Massachusetts Department of Revenue (DOR) required the Town to set aside the excess funds from up-front reimbursements for those public school construction projects, and to apportion those funds over the life of the bonds related to the projects to help fund the debt service obligations.

The 2009 Annual Town meeting voted to establish a specified stabilization fund under G.L. c. 40 Section 5B called the *Debt Service Stabilization Fund* (DSSF). The $1,739,894 remaining from the FY2007 set-aside was then appropriated into the DSSF. This fund allows the Town to invest the set-aside bond proceeds beyond the one-year arbitrage limit that would otherwise apply. The required annual appropriations from the DSSF will be completed in 2023. The current balance of the DSSF is $1,499,107.

The Committee recommends approval of this request (9-0).

Article 20: Appropriate for Prior Years' Unpaid Bills	Funds Requested	Funding Source	Committee Recommendation
	$30,940	GF	Approve (9-0)

During the 2013 Annual Town Meeting, unpaid bills from Siemens for streetlight repairs performed in FY2012 were approved. Siemens stated at that time that there were no other invoices outstanding. This past fall, an invoice for work done in FY2013 was submitted by Siemens, and Town staff have verified that the work was completed. The requested funds will come from the FY2014 DPW budget.

The Committee has taken no position on this request.

Article 21: Amend FY2014 Operating and Enterprise Budgets	Funds Requested	Funding Source	Committee Recommendation
	Unknown	Unknown	Pending

A recommendation from the Town Manager, Town staff, and the Board of Selectmen regarding actions, if any, under this Article is not expected to be available until after the Annual Town Meeting commences. Consideration of this Article, which is included in every annual town meeting warrant, is normally deferred until the end of town meeting to allow Town staff to coordinate the final adjustments to the prior year's budget into a single motion. This Committee will report further when the Article is taken up.

The Committee has not taken a position on this Article.

Article 22: Appropriate for Authorized Capital Improvements	Funds Requested	Funding Source	Committee Recommendation
	$495,000 $246,194 **$741,000**	**Tax Levy** **Bond Premium**	**Approve (9-0)**

There are two items to be acted upon under this Article. The first is a request for supplemental funding in the amount of $495,000 for the Lexington High School modular classrooms. At the November 2013 Special Town Meeting, $7,700,000 was appropriated to cover both phases of the installation, the first to be done in the summer of 2014 in time for use in September, 2014, and the second to be done one year later.

The supplemental funding requested under this Article is necessary because the bids for Phase 1 were higher than what was expected for that phase last November. The present request is sized to cover an increase in costs from the November estimates for both phases of the project although no bids have yet been received for the second phase.

The second item is the appropriation of $246,194 in bond premiums received when the Town sold bonds for the Bridge and Bowman School renovation (Article 2 of November 2011 Special Town Meeting; $98,378.64 premium) and Estabrook School construction (Article 3 of November 2012 Special Town Meeting; $147,815.82 premium). This action will appropriate the premiums for project costs. It does not increase or decrease costs for either project. The total amount is approximate because it may be adjusted downward for bond issuance costs. A portion of the borrowing authorization for each project must also be rescinded in the amount of the premium less the bond issuance costs; this is requested under Article 16.

The Committee recommends approval of this request (9-0).

Article 23: Amendments to the District Agreement of the Minuteman Regional Vocational School District	Funds Requested	Funding Source	Committee Recommendation
	None	**N/A**	**Approve (9-0)**

The District School Committee for the Minuteman Regional High School (MRHS) is asking for Town Meeting's approval of an amendment to their Regional Agreement, which governs how the 16 member communities share in the administration and funding of the school. The District School Committee consists of one appointed representative from each of the 16 member communities, and the proposed amendment was drafted by a subcommittee of the District School Committee. The amendment changes the manner in which operating and capital costs are allocated to members, and the procedures and voting threshold need to approve debt-based appropriations. The amendment also creates incentives for new communities to join the District, while easing requirements for member communities that may decide to leave the District. Approval from the Town Meetings of every member community is required for this amendment to take effect.

The Minuteman Regional School District is made up of 16 diverse towns, stretching from Lancaster to Belmont, and Carlisle to Dover. There is a large variation in the number of students each town sends and the amount each town pays per student. Student enrollment from two communities, Arlington (165) and Lexington (52), provides 50% of the in-district High School population. The average number of students from the remaining 14 communities is 15.5, and three towns send 3 or fewer students. The per-student assessments vary according to a State "richness" factor and currently range from $17,238 to $23,335.

In 2009 the Minuteman Regional School District recognized that major building repairs, renovations, and possibly replacement, would be necessary to ensure the continuation of the school. Despite the seriousness of these problems, the District could not gain the unanimous consent from the member communities required to move the project forward. Some communities withheld support because they questioned whether the size of a renovated school should be smaller than the current school.

At that time school enrollment was declining and only half of the students were from member communities. Major capital spending would have raised per-student assessments as capital costs were allocated to member communities with a declining in-district enrollment. More importantly, there would be no legal way to recover any capital costs from the large number of out-of-district students.

Although currently underutilized by member communities, MRHS is a highly successful educational institution for students that require an alternative learning experience. MRHS successfully places over 90% of its students into college undergraduate programs, advanced technical training, technical careers, and the military. It offers a diverse selection of vocational training not found in other regional schools. The fact that non-member communities, many with longstanding ties to other vocational facilities, send a large number of students to MRHS underscores the unique programs that this school offers.

The District School Committee decided that the way forward required the following steps:

- Conduct a feasibility study to determine potential future enrollment, educational programs, and school district size.
- Work with the State to create a legal mechanism that would allow the District to recover some capital costs from the towns of out-of-district students.
- Amend the District Agreement to meet the future needs of the District.

The original District Agreement was adopted in 1970 and was last amended in 1980. The new District Agreement attempts to address shortcomings identified by member communities. The District would like to increase in-district enrollment and encourage non-member communities to join the District. All communities want an equitable formula to deal with anticipated capital costs. Most communities would like to make it easier for member communities to exit the District if they so choose.

To that end, some of the new District Agreement changes are as follows:

- A member's vote in the District School Committee will be weighted so that one half of the total vote is distributed in equal shares to each member, and the other half of the vote is distributed in proportion to each member's 4-year rolling average for enrollment. Routine business will be approved by weighted simple majority vote. The annual budget will require approval with a weighted ⅔ majority vote. Debt-based appropriation will require approval by an *un*-weighted ⅔ majority vote.
- Assessment of annual operating costs will be based on the 4-year rolling average enrollments.
- Assessment of capital costs will be made via a formula that is the sum of the following amounts. Each of the 16 member communities will pay 1% of annual capital expenses (16%). Half of the remaining cost (42%) will be allocated based on the 4-year rolling average enrollments. The remaining 42% will be allocated based on a component of the Chapter 70 state aid formula that determines a community's ability to support their local school system. Additionally, if non-member communities contribute towards capital costs, that revenue will be restricted to the purpose of reducing capital assessments to member communities.
- Debt may be authorized only by unanimous approval from the Town Meetings of all member communities, or, if unanimous approval is not obtained and the District so chooses, by aggregate majority vote in an all-district referendum.
- Withdrawal by a member community currently requires the Town Meeting of every other member community to approve the withdrawal. Additionally, the withdrawing community remains liable for debt incurred prior to their exit, even if their community did not vote to approve the debt. Withdrawal under the new agreement will require a simple majority of the Town Meetings of other member communities to approve, and a departing community will not be liable for any debt that was not approved by their own community.

- New communities wishing to become members will be allowed to negotiate with the District School Committee for an incentive agreement that would gradually increase the community's assessment for capital costs over a four-year period. The incentive agreement will require a ¾ majority vote of the District School Committee as well as approval by ¾ of the Town Meetings of member communities.
- Future amendments to the District Agreement will require a ¾ majority vote of the District School Committee as well as approval by ¾ of the Town Meetings of member communities, except that any changes to the processes for amending the agreement, incurring debt, apportioning capital costs, and member withdrawal will require unanimous approval by the District School Committee and the Town Meetings of member communities.

The proposed amendment to the District Agreement would update the current governing agreement that has become unworkable for the present and future challenges facing the regional school district. The new voting procedures and capital allocation plan is not expected to have a major effect on Lexington's future assessments. As one of the larger enrolled communities, the Town would enhance its level of representation with no appreciable change in its share of the costs.

The Committee agrees that MRHS is a valuable educational resource that serves our community and is worthy of continued support. The shortcomings of the current District Agreement are illustrated by the repeated failure to obtain unanimous approval of preliminary motions from the Town Meetings of member communities during the last few years.

MRHS remains in dire need of major capital improvements. This project has already qualified for substantial MSBA financial support which will further reduce individual member capital contributions. The MSBA is aware of the District's issues and has remained patient, although at some point the availability of the subsidy could be withdrawn. Unless those improvements are begun soon, member communities could end up bearing the full cost of critical renovations. Approval of the amended Regional Agreement is the first step in resolving the standoff among member communities.

<u>The Committee recommends approval of this request (9-0).</u>

Article 25: Establish Qualifications for Tax Deferrals	Funds Requested	Funding Source	Committee Recommendation
	None	**N/A**	**IP**

This Article is routinely included in the Warrant to give Town Meeting an opportunity to adjust the qualifications for tax deferrals (see Appendix D).

As of publication, the committee was not aware of any proposed changes. If action is indefinitely postponed, the previously established qualifications will remain in effect.

<u>The Committee expects action on this Article will be Indefinitely Postponed.</u>

Appendix A: 3-Year Budget Projection

This projection can help us understand the challenges that Lexington will face if, e.g., revenues do not keep pace with expenses in a "level service" budget. The projection is also an opportunity to obtain a better qualitative as well as quantitative understanding of known trends and cost drivers.

Creating a revenue and expense projection differs in both method and purpose from creating a balanced budget. In a budget, one plans conservatively to avoid both over-spending and under-funding, either of which could necessitate harsh financial remedies during a fiscal year. For a projection, one makes rough estimates about future revenue and expenses regardless of how they might impact the overall fund balance. The resulting figures do not represent actual revenue or spending targets.

We have adopted some key assumptions as the basis for the projection presented herein using limited investigations to establish their plausibility. We note below the most important aspects.

In regard to revenue, we assume that the economy in FY2015 will show modest growth, and that the Town's revenue stream will recover fully in FY2016 and FY2017. We caution the reader that it is unclear if our detailed assumptions capture this intent. The following points outline the basis of our assumptions regarding revenue changes:

- The tax levy is assumed to grow annually by 2.5% of the previous year's base plus an amount for "new growth". No amounts are included for Proposition 2½ operational overrides.
- New growth (the increase in the tax levy from new construction) in FY2016 is assumed to be the average over the 5-year period ending with FY2013 (the reduction is due to the loss of the majority of Shire's TIF delayed growth), and then, for FY2017 and FY2018, is assumed to increase by 2.5% per year.
- State aid is assumed to increase by 2% annually.
- Available funds include free cash as well as amounts in the Parking Fund and the Cemetery Fund. The amounts in the latter two categories are assumed to be $335,000 and $105,000, respectively; and free cash is assumed to total $5,700,000 for FY2016-18, $4,000,000 applied to the operating budget and $1,700,000 to cash capital. Additionally we project that for FYs 2016 through 2018 $750,000 will be transferred out of the Health Insurance Claims Trust Fund to fund GIC health insurance premiums, freeing up the same amount to fund contributions to the Other Post-Employment Benefits (OPEB) Trust Fund. These assumptions imply that available funds will be lower than the corresponding totals for the previous five fiscal years (FYs 2011 through 2015) which ranged from a low of approximately $6,820,000 for FY2011 to as high as $12,850,000 for FY2015. Our conservatism in regard to the amount of free cash stems from the observation that the average of the available funds over the fiscal years FY2005 through FY2010 was lower than $3,300,000.
- Transfers from the Debt Service/Capital Projects/Building Renewal (DECAPREN) Stabilization Fund are included in available funds. In FY2016, $350,000 is anticipated to be used to offset the Bridge/Bowman/Estabrook exempt debt payments and $1,300,000 to offset the High School modular non-exempt debt payments, in FY2017, $978,000 is planned to be used to offset the High School non-exempt debt payments, and, in FY2018, we project that $1,000,000 will be transferred towards either capital projects or debt payment relief.
- Revenue offsets include amounts from cherry sheet assessments that are assumed to grow by 3.5% annually, amounts for the Assessors' overlay ($750,000 annually in FY2016-2017 and $900,000 in FY2018, a revaluation year), and $300,000 that is set aside annually for potential deficits in the snow and ice budget.

- Water and Wastewater Enterprise Fund indirect expenses are assumed to increase by 3% annually. Recreation Enterprise Fund indirect expenses are assumed to increase by $5,000 per year.

The major assumptions that we made regarding expenses are as follows:

- Line items do not include any increases for as of now unsettled cost-of-living adjustments (COLAs) for salaries and wages. The potential impact of COLAs of different sizes initiated in FY16 is summarized below the main projection.
- The Lexington Public Schools personnel costs are assumed to increase by 2% annually for step changes, and 1% for enrollment driven increases.
- The Lexington Public School expenses for items other than special education are assumed to increase by 2% per year. Special education expenses for out-of-district tuition are "net" the State Circuit Breaker reimbursement and are assumed to increase by 5% annually, while the expenses for SPED consultants and out-of-district transportation are assumed to increase by 3% per year.
- Municipal personnel costs are assumed to increase by 1.3% annually for step changes.
- Municipal expenses are assumed to increase by 3% per year.
- The assessment for Lexington's share of expenses for Minuteman Career and Technical High School is assumed to increase by 4.5% per year.
- Appropriations for current and future pension payments are assumed to follow a schedule set up by the Retirement Board following the most recent actuarial evaluation of pension costs.
- Health insurance costs are assumed annual premium increases are 4%.
- Non-exempt debt service costs are assumed to grow 5% net of any subsidies from the Debt Service/Capital/Building Renewal Stabilization Fund, in order to mirror the growth of revenue.
- Dept. of Public Facilities costs include salaries and wages (assumed to grow by 1.3% annually for step changes), utility bills (assumed to increase by 3%), and other expenses (assumed to grow by 3% annually).
- Expenses for cash capital are assumed to include amounts for road and building envelope maintenance (following from overrides) that increase annually by 2.5, as well as $1,700,000 from Free Cash for other capital expenses.
- We assume that no new funds are appropriated into the main Stabilization Fund.
- Other expenses are assumed to include $45,000 annually for the senior tax work-off program; $400,000 of revenue set aside as a hedge for State or Federal aid reductions; an annual $1,000,000 contribution to the trust fund for future costs of health insurance for retired employees.
- The offsetting revenues and expenses for Revolving Funds, Grants and Enterprise Fund Operations are projected using the 5-year trend from FY2010-2015. Enterprise capital is projected using the five averages for FY2010-2014.
- No potential expenses for unidentified new programs are built into these projections.

The projection for FY2016 shows an increase of approximately $3,700,000 in total general fund revenue. This increase is below the projected $6,800,000 increase in the tax levy revenue because we assume that there will be a decrease in free cash (the major part of the available funds line) from that available for FY2015. We do not expect large amounts of free cash like that certified last November will continue to be certified every fall. Traditionally when additional Free Cash materializes it is not used to fund operating expenses, but is applied to one-time expenses such as capital projects or stabilization funds. Free cash is built by an excess of actual revenues over actual expenditures. This makes it particularly difficult to project, and the uncertainty in the number is significant. The projection shows overall revenue growth of $6,800,000 in FY2017 and $7,800,000 in FY2018.

The budget's bottom line continues to be positively affected by favorable GIC health insurance rates, which came into effect in FY2013. GIC's FY2015 rate increase is only 1%. Gains here may be offset by costs incurred due to the continued growth in school enrollment.

COLAs of 1% in FY2016 for the schools, municipal and Public Facilities Department would increase their respective budgets by $785,000, $215,000 and $50,000. Our table illustrates the cumulative effect that COLAs of varying percentages would have on reducing any surpluses for FY2016-2018. We expect that the actual range of uncertainty of this bottom line figure considering the universe of possible factors is very roughly one to three million dollars.

REVENUE SUMMARY	**FY2013** Actual	**FY2014** Recap	**FY2015** Budgeted	**FY2016** Projected	**FY2017** Projected	**FY2018** Projected
Property Tax						
Property Tax Levy	$128,662,664	$135,440,316	$141,843,658	$147,689,750	$154,538,567	$161,637,519
Allowable 2.5% incr.	$3,217,107	$3,386,008	$3,546,091	$3,692,244	$3,863,464	$4,040,938
New Tax Levy Growth	$3,560,545	$3,017,335	$2,300,000	$3,156,574	$3,235,488	$3,316,375
Excess Levy Capacity	$(53,534)	$(1,175)	$-	$-	$-	$-
Tax levy	**$135,386,782**	**$141,842,483**	**$147,689,750**	**$154,538,567**	**$161,637,519**	**$168,994,832**
State Aid	$9,410,134	$10,201,794	$10,405,830	$10,613,947	$10,826,226	$11,042,750
Local Receipts	$12,549,845	$10,524,400	$10,769,383	$10,930,924	$11,094,888	$11,261,311
Available Funds	$7,249,652	$12,473,510	$12,854,109	$8,626,150	$7,954,150	$7,976,150
Revenue Offsets	$(1,645,350)	$(1,647,074)	$(2,097,751)	$(1,921,470)	$(1,951,971)	$(1,983,540)
Enterprise Funds (Indirect)	$1,512,892	$1,497,405	$1,489,763	$1,532,392	$1,576,150	$1,621,071
Total General Fund	**$164,463,954**	**$174,892,518**	**$181,111,084**	**$184,320,510**	**$191,136,961**	**$198,912,574**
Other Revenues						
Revolving Funds	$2,117,849	$2,850,000	$3,055,000	$2,108,313	$2,094,834	$2,081,355
Grants	$91,286	$90,786	$131,261	$124,807	$121,721	$118,635
Enterprise Funds	$17,401,858	$19,651,477	$21,429,128	$18,325,201	$18,902,890	$19,480,579
Exempt Debt	$6,199,081	$6,927,654	$8,344,302	$8,338,780	$7,714,132	$7,467,755
Sub-Total Other Revenues	**$25,810,074**	**$29,519,917**	**$32,959,691**	**$28,897,101**	**$28,833,577**	**$29,148,324**
TOTAL REVENUE	**$190,274,028**	**$204,412,435**	**$214,070,775**	**$213,217,610**	**$219,970,538**	**$228,060,898**

EXPENSE SUMMARY	FY2013 Actual	FY2014 Recap	FY2015 Budgeted	FY2016 Projected	FY2017 Projected	FY2018 Projected
Education						
Lex. Pub Schools Wages	$64,481,249	$68,735,873	$73,496,851	$78,457,888	$80,811,625	$83,235,974
Lex. Pub Schools Expenses	$6,702,264	$6,488,121	$7,054,475	$7,195,565	$7,339,476	$7,486,265
Out-of-District SPED	$5,444,843	$6,176,513	$6,072,603	$6,350,732	$6,642,003	$6,947,049
Sub-Total Lex. Pub. Schools	**$76,628,356**	**$81,400,507**	**$86,623,929**	**$92,004,185**	**$94,793,104**	**$97,669,288**
Minuteman Reg. School	$1,407,979	$1,474,266	$1,244,384	$1,300,381	$1,358,898	$1,420,049
Sub-Total Education	**$78,036,335**	**$82,874,773**	**$87,868,313**	**$93,304,566**	**$96,152,002**	**$99,089,337**
Municipal						
Municipal Wages	$19,898,615	$20,673,137	$21,232,908	$21,508,936	$21,788,552	$22,071,803
Municipal Expenses	$9,479,559	$9,907,835	$10,724,403	$11,046,135	$11,377,519	$11,718,845
Sub-Total Municipal	**$29,378,174**	**$30,580,972**	**$31,957,311**	**$32,555,071**	**$33,166,071**	**$33,790,648**
Shared Expenses						
Benefits & Insurance	$28,083,601	$29,688,137	$30,824,627	$32,140,957	$33,414,963	$34,815,903
Debt (within-levy)	$5,462,902	$5,534,823	$6,730,641	$7,433,037	$7,487,515	$7,100,944
Reserve Fund	$-	$900,000	$900,000	$900,000	$900,000	$900,000
Facilities	$9,343,331	$9,760,460	$9,897,675	$10,122,263	$10,352,482	$10,588,484
Sub-Total Shared Expenses	**$42,889,834**	**$45,883,420**	**$48,352,943**	**$50,596,257**	**$52,154,960**	**$53,405,332**
Capital & Reserves						
Cash Capital	$3,902,794	$6,919,202	$5,238,117	$4,244,057	$4,306,408	$4,370,318
Stabilization Fund	$-	$-	$-	$-	$-	$-
Debt Svc. Stab. Fund	$1,600,000	$3,983,240	$5,632,584	$600,000	$600,000	$600,000
PEIL Fund (OPEB)	$500,000	$775,000	$1,119,000	$750,000	$750,000	$750,000
Other	$336,250	$3,580,000	$942,816	$545,000	$545,000	$545,000
Sub-Total Cap. & Res.	**$6,339,044**	**$15,257,442**	**$12,932,517**	**$6,139,057**	**$6,201,408**	**$6,265,318**
Total Op., Cap. & Res.	**$156,643,387**	**$174,596,607**	**$181,111,084**	**$182,594,951**	**$187,674,442**	**$192,550,635**
Revolving Funds	**$2,117,849**	**$2,850,000**	**$3,055,000**	**$2,108,313**	**$2,094,834**	**$2,081,355**
Grants	**$91,286**	**$90,786**	**$131,261**	**$124,807**	**$121,721**	**$118,635**
Enterprise Funds						
Water	$7,324,348	$7,878,103	$8,481,606	$7,274,270	$7,423,934	$7,573,598
Wastewater (Sewer)	$8,418,699	$8,775,784	$9,052,588	$8,466,913	$8,698,161	$8,929,409
Recreation	$1,658,811	$1,785,840	$1,840,934	$1,564,018	$1,510,795	$1,457,571
Enterprise Capital		$1,211,750	$2,054,000	$1,020,000	$1,270,000	$1,520,000
Sub-Total Enterprise Funds	**$17,401,858**	**$19,651,477**	**$21,429,128**	**$18,325,201**	**$18,902,890**	**$19,480,579**
Exempt Debt	**$6,199,081**	**$6,927,654**	**$8,344,302**	**$8,338,780**	**$7,714,132**	**$7,467,755**
TOTAL EXPENSES	**$182,453,461**	**$204,116,524**	**$214,070,775**	**$211,492,052**	**$216,508,019**	**$221,698,959**
Balance (w/out COLA)	**$7,820,567**	**$295,911**	**$(0)**	**$1,725,558**	**$3,462,520**	**$6,361,939**

COLA Projection	FY2016
1% COLA for schools	$785,000
1% COLA for municipal	$215,000
1% COLA for public facilities	$50,000
Total 1% COLA Increment	$1,050,000

COLA	Balance (Deficit) for various COLA rates implemented in FY2016		
1%	$675,558	$1,352,020	$3,180,334
2%	($374,442)	($779,480)	($64,901)
3%	($1,424,442)	($2,931,980)	($3,374,396)

Appendix B: Enterprise Funds

The Town of Lexington has maintained Water, Wastewater (Sewer), and Recreation Enterprise Funds since the state legislature enacted legislation authorizing such funds, G.L. c. 44, § 53F ½, in the late 1980's. An enterprise fund "establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities" and are accounted for on an accrual basis. *DOR Enterprise Funds Manual (April 2008)*. An enterprise fund provides management and taxpayers with information to: measure performance, analyze the impact of financial decisions, and determine the cost of providing a service. Enterprise funds may be operated on a stand-alone basis or subsidized by the General Fund.

The Water and Wastewater Enterprise Funds operate on a completely stand-alone basis. These funds do not rely on any tax-levy revenues, but cover their complete operating and capital needs with user charges and fees. The Recreation Enterprise Fund is only partially stand-alone. It covers its operating costs with user charges and fees and contributes to the debt service on certain recreation capital projects (in particular, the Lincoln Field restoration project). Most recreation capital costs, however, are subsidized by the General Fund through a combination of within-levy borrowing, Community Preservation Act (CPA) funding, and debt exclusion funding.

<u>Establishing the Enterprise Fund Budgets</u>

At the Annual Town Meeting each year, Town Meeting appropriates a budget for each of the three enterprise funds for the upcoming fiscal year. Later in the year (in the early fall in the case of the Water and Wastewater Enterprise Funds), user charges are set that are designed, based on projections of usage for the fiscal year, to be sufficient to cover the appropriations made by Town Meeting to run the enterprises.

Depending on the accuracy of the usage projections, the actual revenue realized by the enterprise during the year may exceed or fall short of the appropriated amount. Any operating surplus must be retained in reserve in the enterprise fund. The funds accumulated in that reserve (referred to as "retained earnings") may be applied only to meet the capital needs of the enterprise or to reduce user charges. Any operating loss (after applying any accumulated reserves in the fund), must be made up in the succeeding fiscal year's appropriation.

Since FY2007, the Annual Town Meeting Warrant has contained a separate Article for the appropriation of the enterprise fund operating budgets (previously, appropriations for the enterprise funds were commingled with those for the General Fund). This presentation makes it easier to understand the operating budgets of the enterprise funds. However, it should be noted that certain indirect costs that are charged by the General Fund to the enterprise funds (see discussion below) are still appropriated as part of the municipal operating budget, this year in Article 4. For the complete operating costs of the enterprise funds, including indirect costs, see the Brown Book sections on Water, Wastewater, Recreation.

To present a more meaningful picture of the complete enterprise fund operating budgets, the tables included in the write-up of this article have been expanded from those presented in the Warrant to show the indirect as well as the direct costs of the funds. Debt service costs for previously approved capital expenditures are shown in the enterprise fund operating budgets. However, it should be noted that appropriations for capital needs of the enterprises, whether funded by cash or borrowing, are addressed in separate capital Warrant articles.

Appendix C: Revolving Funds

Ordinarily, revenue received by any municipal department must be deposited in the General Fund, and cannot be expended for any purpose without further appropriation by Town Meeting. A revolving fund allows Town Meeting to dedicate in advance a specific source of anticipated revenue from fees and charges, on an ongoing basis and without the need for further appropriation, to pay expenses for rendering the services for which those fees and charges are collected.

Revolving funds managed by municipal departments are generally governed by G.L. c. 44, § 53E1/2. (There are also a number of revolving funds managed by the School Department, such as the School Lunch Fund, which are governed by other statutes and are not within the control of Town Meeting.) Under Section 53E1/2, a municipal revolving fund can be established only by vote of Town Meeting.

That authorization must be renewed prior to each succeeding fiscal year. The authorization must specify:

- the purpose(s) for which monies deposited in the fund may be used
- the source(s) of funds to be deposited
- the board, department or officer authorized to expend monies from the fund
- a limit on the total amount that may be expended from the fund in the ensuing fiscal year

Expenditures may not be made, nor liabilities incurred, in excess of the balance of the fund. If a revolving fund is reauthorized, any balance in the fund may be carried over to the next fiscal year. If a revolving fund is not reauthorized, or if the purposes for which the money in the fund may be spent are changed, the balance in the fund reverts to the General Fund at the end of the fiscal year unless Town Meeting votes to transfer the funds to another duly established revolving fund.

Appendix D: Tax Relief Programs

In early 2004, the Board of Selectmen created an ad hoc Tax Deferral and Exemption Study Committee to explore ways in which the property tax relief available to senior citizens and other needy residents could be enhanced and made more accessible. Since then, Town Meeting has taken a succession of steps to expand such relief, for the most part maximizing the options that the Town is allowed to adopt under existing state law and, in some cases, increasing opportunities for tax relief beyond those that would ordinarily be available under state law.

The principal programs for tax relief now available to Lexington homeowners are:

- A state income tax *"Circuit Breaker"* program providing a state tax credit for low- and moderate-income homeowners and renters age 65 and over.
- "41A", a tax *deferral* program, under which low-to-moderate-income homeowners age 65 or over may defer any or all of their property tax due, after applying any available exemptions, up to half the value of their house, at an interest rate equal to the Town's cost of funds (0.12% for FY2015 deferrals), until the house is sold or transferred, G.L. c. 59, § 5, cl. 41A.
- "41C", a *tax exemption* program, under which homeowners age 65 or over with limited income and limited assets other than the value of their home may deduct $1,000 from their annual property tax, G.L. c. 59, § 5, cl. 41C½.
- A locally-controlled *Senior Service* program, adopted by Town Meeting in 2006.
- A Community Preservation Act *surcharge exemption* program.

<u>State Income Tax "Circuit Breaker"</u>

Low- and moderate-income homeowners age 65 and over whose homes have an assessed valuation not greater than a specified ceiling ($700,000 on January 2013), and renters, may obtain a tax credit on their state tax returns (up to $1,030 for tax year 2013). The actual credit received depends on income and real estate tax payments. This program is administered by the Massachusetts Department of Revenue and has no direct impact on Town finances.

<u>The "41A" Deferral Program</u>

This program, although it has not been widely used, is an important tool for tax-relief because it offers immediate and substantial property tax relief to seniors with significant equity tied up in a residence. Those who qualify may defer any part or all of their property tax for a given year, up to a cumulative total of half the assessed valuation of their house, at a very generous interest rate. The deferred taxes are eventually paid when the property is sold or transferred. The interest rate is based on a floating Treasury rate equivalent to Lexington's cost of funds in the year of deferral (capped at 8% but normally less than 1%), which remains in effect for the life of each year's deferral. The interest rate for FY2015 deferrals will be 0.12%.

The 41A deferral program is an attractive form of tax relief from the Town's point of view because it is essentially revenue-neutral. While the unlikely event of a significant increase in the number of participants in any particular year could potentially create a short-term cash flow problem, the Town is in effect making well-secured loans. The Town should eventually be repaid all the funds that are deferred with interest, and over time an equilibrium should be reached under which as many deferral agreements are repaid as are entered into.

The total amount of deferred taxes now carried by the Town as accounts receivable is approximately $884,240.

<u>The "41C" Exemption Program</u>

For many years, the Town has made available to qualifying seniors a property tax exemption under Clause 41 of G.L. c. 59, §5, and its successor, Clause 41C. Under the "41C" Program, the Town receives partial reimbursement from the State for exemptions defined under the program, subject to appropriation. The portions of the exemptions that are not reimbursed are funded from the Town's overlay account.

Prior to 2004, the amount of the credit was limited to $500 per year and eligibility criteria were quite restrictive. Since then, the Town has taken a number of steps to expand both eligibility and the credit amount. Taking advantage of new local options made available by the legislature in 2002, Town Meeting voted in 2004 to:

- Increase the amount of the exemption to $750.
- Lower the age of eligibility from 70 to the minimum allowed age of 65.
- Increase the income threshold from $13,000 (single) / $15,000 (married) to the maximum allowed amount of $20,000 (single) / $30,000 (married).
- Increase the threshold for personal assets, not including the home, from $28,000 (single) / $30,000 (married) to the maximum allowed amount of $40,000 (single) / $55,000 (married).

In 2005, Town Meeting voted to adopt the provisions of G.L. c. 59, § 5, Clause 41D, which automatically adjusts the income and asset limits for Clause 41C (but not the exemption amount) by a COLA established annually by the state Department of Revenue. For FY2013, the income limits are $25,141 (single) / $37,715 (married) and the asset limits are $50,283 (single) / $69,141 (married).

In 2006, Town Meeting voted to increase the exemption to the maximum allowable amount of $1,000.

The Senior Service Program

Low-income seniors may perform volunteer work for the Town in exchange for a reduction in their property tax, currently up to a maximum credit of $1,045 for an individual, or a maximum credit of $1,330 for a two-person household. The Senior Service program, formerly funded from the overlay account, is now funded as part of the Town's annual budget, and is subject to appropriation.

In 1999, the Legislature authorized cities and towns, by accepting G.L. c. 59, § 5K, to offer residents, age 60 and over, the opportunity to reduce their property-tax obligation by up to $500 in exchange for community service.[3] Lexington, which had earlier maintained its own program, accepted this statute shortly after it was enacted. The statute allows towns to set their rules and procedures for implementation, but limits participation to persons age 60 or over and also limits the hourly credit to the state's minimum wage of $8/hour.

In 2006, Town Meeting voted to rescind its acceptance of the statewide senior property tax work-off program under G.L. c. 59, § 5K, and to replace it with a locally controlled program. This gave the Town the flexibility to: allow participation by persons under age 60, such as the disabled and handicapped, who might be able to benefit from the program; pay a wage in excess of the minimum wage; and allow a higher amount to be credited against a participant's property tax bill.

The most recent set of guidelines, which became effective in FY2014, are as follows:

- Income eligibility is $53,000 for single taxpayers or $55,000 for a couple.
- Hourly rate is $9.50.
- Maximum credit is $1,045 (110 hours) for one participant or up to $1,130 (140 hours) for a couple living in the same household.

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[3] In 2002, the maximum amount of the Section 5K credit was increased to $750. In 2009 it was increased to $1,000, and the 2010 Municipal Relief Act added a provision allowing towns to adopt a local option to set the limit at 125 hours of service at the prevailing minimum wage (now $8.00 per hour), which would automatically increase the limit if the minimum wage increases.

Although the Board of Selectmen has the authority to expand eligibility to persons under age 60 who are disabled or handicapped, it has not yet done so.

CPA Surcharge Exemption

Low-to-moderate income homeowners age 60 or over, and low-income homeowners under age 60, may obtain a 100% exemption from the CPA surcharge on their property tax. These exemptions directly reduce the amount of CPA revenue that the Town receives.

Appendix E: Specified Stabilization Funds

The state statute authorizing towns to create and maintain a stabilization fund, G.L. c. 40, section 5B, was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes. The creation of such funds, the specification of their purpose, any alteration of their purpose, and any appropriation into or out of the funds, must be approved by a two-thirds vote of Town Meeting at an Annual or Special Town Meeting. To supplement its general Stabilization Fund Lexington has created several specified stabilization funds, which are described below.

At the 2007 Annual Town Meeting, four specified stabilization funds were established to replace certain pre-existing special revenue accounts. Monies in the special revenue accounts, funded by negotiated payments from developers, had previously been spent without specific appropriation. In order to comply with Massachusetts Department of Revenue guidelines, and to make the existence and use of the funds more transparent, monies in the special revenue accounts were transferred to the following specified stabilization funds, where they are now subject to review and appropriation by Town Meeting:

Transportation Demand Management/Public Transportation (TDM/PT) S.F.: Contains payments negotiated with developers to support the operations of Lexpress.

Traffic Mitigation (TM) S.F.: Contains payments negotiated with developers to support traffic mitigation projects, such as improvements to signals and pedestrian access at intersections, including funds previously contained in the Avalon Bay TDM special revenue account.

School Bus Transportation S.F.: Supports daily school bus operations, and was originally funded with $200,000 contained in the Avalon Bay School Bus Transportation special revenue account.

Section 135 Zoning By-Law S.F.: Created to finance public improvements using monies contributed by developers pursuant to Section 135 of the Code of Lexington.

At the 2008 Annual Town Meeting, the *Special Education Stabilization Fund* was created to set aside reserves to help cover unexpected out-of-district special education expenses that exceed budget. A related goal was to enhance transparency around the out-of-district special education budget component by segregating this expense item and bringing budget overruns to Town Meeting for its approval. This fund was created in FY2009 with an initial appropriation of $350,000 and another $350,000 was appropriated to the fund at the spring 2009 Annual Town meeting. The current target level for this fund is $1,000,000.

At the 2009 Annual Town Meeting the *Center Improvement District Stabilization Fund* was created and was funded by a $100,000 payment received from the developer of Lexington Place in FY2010. The funds may be used for projects such as tree planting, sidewalk improvements to the abutting connector between the parking lot and the sidewalk. None of these funds have been appropriated yet.

At the 2011 Annual Town Meeting two more funds were created:

Avalon Bay School Enrollment Mitigation Fund: funded with a $418,900 payment received from Avalon Bay pursuant to an Education and Trust Fund Escrow Agreement dated May 31, 2006. The terms of that agreement called for the establishment of an escrow fund in the amount of $750,000 with disbursements made to the Town annually if the number of students residing at the development (Avalon at Lexington Hills) exceeded 111. The amount payable per student in excess of 111 is $7,100. This fund is expected to be depleted in FY2014.

Transportation Management Overlay District Fund (TMOD): funded by payments from those developers who choose to pay a transportation mitigation fee rather than taking responsibility for improving all the intersections in the area to a certain level as provided in Section 135-43.C of the Zoning Bylaw. Per Section 135-43.C(5)(c) “any transportation mitigation fees paid to the Town are intended to be used to fund infrastructure improvements that are necessitated by the proposed development of the applicant.”

At the 2012 Special Town Meeting, the *Debt Service/Capital Projects/Building Renewal S.F.* was created to set aside funds for future capital projects, including but not limited to building renewal projects, and/or to mitigate the impact on taxpayers of debt service, both excluded and non-excluded, related to capital projects.

Current Town policy has a goal of keeping debt service at approximately 5% of total revenue. When the Town must issue a particularly large bond, such as was needed for the new Estabrook School construction combined with the Bridge and Bowman school renovations, the Town's debt service rises sharply. This rise is typically followed by a period of lower growth in debt service while the Town pays down its existing debt, and limits additional borrowing, until debt service converges back on the goal of 5% of total revenue.

Rather than adding the higher debt service directly into the tax levy, this fund allows the Town to smooth the impact of sudden increases in debt service on property tax bills. Town Meeting can set aside funds in periods when the Town has a surplus, and in later years these funds can be appropriated to directly reduce annual debt service, which in turn reduces the amount that must be raised in the tax levy.

Appendix F: Other Post Employment Benefits

The OPEB Liability

The Town of Lexington is required by State law to provide health benefits to retired employees that are comparable to those provided for active employees. These and other retirement benefits that are distinct from the pension benefits earned by many retirees are known as “other post-employment benefits” or OPEB for short. Health care benefits are by far the largest component of OPEB. Currently, about 80% of retirees are eligible for Medicare and receive Medicare supplement coverage from the Town. The remaining retirees receive full coverage from the Town, either because they under 65 years old or because they do not qualify for Medicare for other reasons.

Because the Town is obligated to provide these benefits in the future, the anticipated costs over the lifetime of the current and future retirees represent a financial liability for the Town. Two factors drive the size of this liability, one adding to it while the other reduces it. After ten years of full-time employment with the Town, employees become eligible for a pension and all future retiree health benefits. At these ten-year anniversaries, the Town’s OPEB liability increases by an amount that can be estimated based on the expected number of years the employee will receive retirement benefits, and the expected cost of providing those benefits in the future. Conversely, as the Town pays for benefits to retirees each year, a slice of the accrued liability is eliminated.

In a simpler world, i.e. a world where the number of retirees was not growing and medical costs did not outpace inflation, the size of the OPEB liability (in inflation-adjusted dollars) would be relatively stable, because the increases and decreases would tend to balance out. In practice, however, the inflation-adjusted value of the OPEB liability generally increases each year, because of the increasing cost of health care, the growth in the number of retirees receiving benefits, and the upward trend in longevity.

The Post Employment Insurance Liability (PEIL) Fund

The PEIL Fund was created pursuant to authority granted to the Town through a special act of the Legislature in 2002. The Fund was created to allow the Town, at the discretion of Town Meeting, to set aside funds to pay for future retiree health benefits. Once money has been appropriated into the PEIL Fund, Town Meeting may only appropriate money out of it to pay for health care costs of retirees.

The Retirement Board is responsible for the management of the PEIL Fund as well as the Retirement Fund, which supports the Town pension system. The rules governing the management of these two funds are similar and, unlike most other Town monies, both of these funds can be invested in equities to yield a higher risk/return ratio suitable for long-term growth.

GASB 45 and the choice of a discount rate

Under Government Accounting Standards Board statement 45 (GASB 45), the actuarial value of the Town’s OPEB liability is revised every two years and the results must be included in the Town’s financial statements. Bond rating agencies have consistently asked about this report since it became available, suggesting that the size of the OPEB liability, and its current funding level, factor into the Town’s bond rating.

Estimating the present value of a complicated long-term liability like OPEB involves many actuarial assumptions, and the final result will be very sensitive to some of these factors, especially the *discount rate* (the assumed rate of return on long-term investments), and the predicted rate of inflation for medical costs. Understanding the results requires the reader to consider the underlying assumptions, and to judge how well they mirror their own real-world expectations.

The Town engages an actuarial consultant who must follow procedures and reporting templates established by GASB 45 to produce the actuarial report. The primary purpose of this report is to inform potential investors about one specific aspect of the financial health of the Town, and to enable uniform financial comparisons across multiple municipalities. However, the required elements of the report are arguably insufficient to provide practical guidance for a municipality that seeks to control or reduce its OPEB liability.

Per GASB 45, the liability is estimated using a conservatively determined "blended" discount rate that is well below the discount rate typically used for long-term investments. This will greatly magnify the estimate of the OPEB liability for municipalities that have not already funded some large portion of their OPEB liability. The lower the discount rate used (predicting worse investment returns), the higher the resulting estimate of the liability will be.

In 2011, the Town's OPEB report used a blended discount rate of 2.5% yielding a liability of $302 million. In 2013, with the consent of the Town's actuarial consultant, a higher blended discount rate of 4.5% was used, yielding a liability of $130 million. This large drop in the official estimate of the liability is due almost entirely to the use of a higher discount rate, but even 4.5% is too low for our purposes.

The discount rate currently used by the Town's pension fund analysis is 7.75%, and the pension fund is quite similar in purpose and design to the PEIL Fund. At the Town's request, the latest actuarial analysis included an auxiliary schedule using a discount rate of 7.75%. This yielded a liability of approximately $90 million as of June 30, 2013. This is arguably the appropriate figure to contemplate for a pre-funding plan, because, in actuarial terms, it assumes that Town will actually follow through with a funding plan (while the blended discount rate assumes the Town will never complete a funding plan).

Unless otherwise noted, all estimates of present value in the remainder of this discussion are based on a discount rate of 7.75%.

Pre-Funding OPEB

There are two approaches to handling the OPEB liability. Currently, the Town follows a *pay-as-you-go* model where annual OPEB expenses are paid entirely through the Operating Budget. This model uses current dollars to pay for expenses accrued in the past. The Town's pay-as-you-go OPEB cost for FY2015 is budgeted at $6.1 million.

The other approach is a *pre-funded* model, where the cost of benefits earned during the current year is appropriated into the PEIL Fund, and the investment returns from the Fund are then used to pay for annual benefits. This model uses current dollars to pay for future expenses, and is essentially the way the pension fund operates.

Under the pre-funded model (ignoring the unfunded liability for now), the amount that would have been appropriated into the trust fund for FY2014 was approximately $1.7 million. This amount is referred to in the actuarial analysis as the "Normal Cost." The Normal Cost is an actuarially determined annual contribution that would fund the Town's share of future retiree benefits earned by active employees in the current fiscal year.

Until the Town fully funds its OPEB liability, moving toward the pre-funded model will require the Town to continue paying for annual pay-as-you-go OPEB expenses, while also appropriating funds into the PEIL Fund. Both types of payments reduce the OPEB liability in their own way. This combination of appropriations would continue until the future investment returns from the PEIL Fund are sufficient to cover the cost of all benefits earned in previous years. At that point the Town's annual OPEB appropriation would drop significantly.

The pay-as-you-go and pre-funded model each have advantages and disadvantages. The pay-as-you-go model is simpler to administer, but there is no benefit from long-term investment earnings, and no hedge against the higher inflation of health care costs. In the pre-funding model, once a sufficient trust fund balance is achieved, the investment earnings pay for a substantial portion of the costs. Building up the trust fund is more expensive in the near term, but eventually results in much lower annual appropriations from the operating budget.

Under pay-as-you-go, there is a disconnect between the time when services are rendered and the time when funds must be appropriated to pay the benefits associated with those services. This disconnect can complicate long-term financial planning. With pre-funding, the fully loaded cost of services is accounted for in the current year.

Even partial pre-funding has some benefits. Any monies in the PEIL Fund provide assurance that the Town will be able to satisfy at least some portion of its future liability, and the Fund could also be used as a reserve, e.g., to fund a portion of retiree health costs in particularly challenging fiscal years.

On the other hand, monies invested in the PEIL Fund are unavailable for other uses. Appropriating money into the PEIL Fund reduces the spending power of the current budget. One should consider whether funding the PEIL Fund takes priority over other liabilities, such as the costs of maintaining or replacing roads and buildings in a timely manner. In some circumstances, choosing the latter might generate significant future savings.

On March 10, 2014, based on a recommendation from the OPEB Working Group, the Board of Selectmen endorsed a formal policy for making annual appropriations to the Post Employment Insurance Liability (PEIL) Fund:

> It is the policy of the Board of Selectmen to recommend to Town Meeting each year a budget contribution to the OPEB Trust Fund in an amount that ranges from 35 to 100 percent of the full Normal Cost, with the General and Enterprise Funds bearing their respective shares of those contributions. This approach will mitigate growth in the Unfunded Actuarial Accrued Liability, reducing the amount the Town will need to budget for health insurance by approximately one-third, as the assets of the OPEB Trust Fund will be used to underwrite the annual cost of retiree benefits.
>
> Further, it is recognized that there are competing claims for limited Town funds, which are considered as part of the annual budget process. Consequently, the annual recommendation for OPEB funding shall be made in the context of other capital and operating budget needs, such that recommended OPEB funding shall not have a material, detrimental impact on service delivery or the maintenance of Town capital assets and infrastructure.

The Committee supports this policy.